TAYLOR NGL

Limited Partnership

2005 Annual Report

ON LONG-LIFE ASSETS

FOCUSED

AND STABLE RETURNS

Corporate Profile

The units of Taylor NGL Limited Partnership (the Partnership or Taylor) trade on the Toronto Stock Exchange under the symbol TAY.UN. The Partnership's convertible debentures trade on the Toronto Stock Exchange under the symbol TAY.DB.

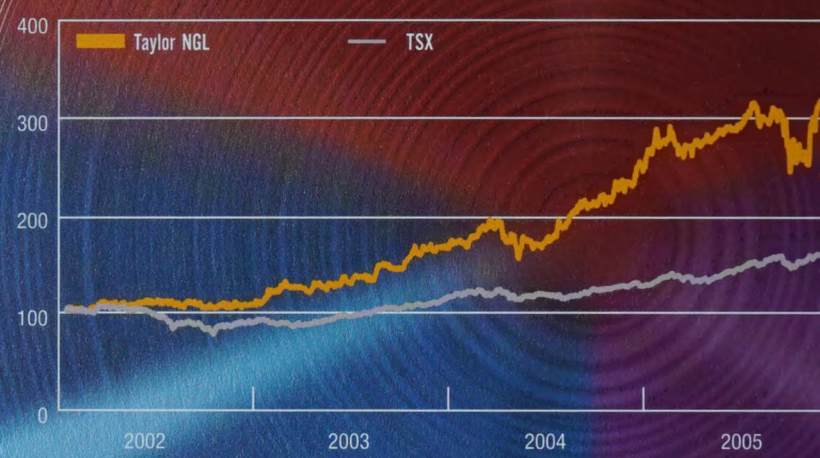
The Partnership owns and operates the RET Complex, the Harmattan Complex and the Joffre Extraction Plant, all located in Alberta, and the Younger Extraction Plant located in British Columbia. The Joffre and Younger plants are natural gas liquids extraction facilities that produce ethane, propane, butane and condensate. The RET Complex and the Harmattan Complex are natural gas processing facilities that provide services to oil and natural gas producers. The Partnership also owns two natural gas liquids pipelines – the Ethylene Delivery System and the Joffre Feedstock Pipeline, both of which move products between Joffre, Alberta and Fort Saskatchewan, Alberta.

Annual Meeting

The Annual Meeting of Taylor NGL Limited Partnership will be held on Wednesday, April 27, 2006 at 8:30 a.m. at the Telus Convention Centre, 120-9th Ave. S.E., Calgary, Alberta.

All unitholders are invited to attend. Those who are unable to attend are kindly requested to sign and return their proxies as soon as possible.

Compound Total Return



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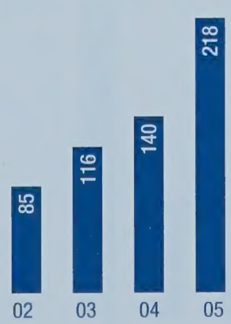
2005 Highlights

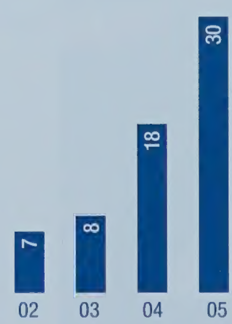
- Acquired the Harmattan Complex for $177 million.
- Completed construction of the $55 million Joffre Feedstock Pipeline.
- Acquired the 2001 Administration Agreement and hired all employees of Taylor Management Company Inc.
- Acquired all remaining minority interests in the Partnership's assets.
- Completed a $120 million unit offering.
- Completed a $50 million convertible debenture offering.
- Distributed $0.695 per unit to investors on a 100 percent tax-deferred basis.
- Total return to unitholders of more than 27 percent over 2005.

Years ended December 31 (thousands of dollars except unit values and volumes)	2005	2004	% Change
Financial			
Total revenue	217,706	140,174	55
Cash Available for Distribution	29,628	18,274	62
Net income before one-time items	17,408	10,167	71
Capital, including non-cash funded expenditures and acquisitions	217,916	80,055	173
Unit price			
High	10.40	8.75	
Low	7.65	5.60	
Close	10.05	8.43	
Units traded	22,610,196	10,987,419	105
Value of units traded	209,176	75,742	178
Outstanding units at year end	42,535,240	28,862,952	48
Operations			
Gas volumes processed (MMscf/day)	414	366	13
NGL production (barrels/day)	16,712	14,769	13

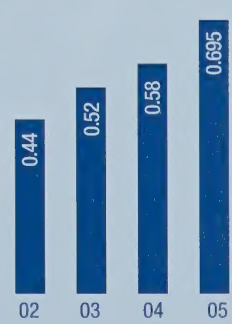
Revenue
($ million)



Cash Available for Distribution
($ million)



Distributions
($/unit)



Focused on Long-Life Assets

Harmattan Complex

Younger Extraction Plant

Joffre Feedstock Pipeline

Taylor has assets in three business lines within the infrastructure, or midstream, sector of the western Canadian natural gas and natural gas liquids (NGL) industries.

1. Natural Gas Processing

Raw natural gas produced from wells is composed mainly of methane and other hydrocarbons, but can also contain water vapor, inert gases, CO_2 and H_2S. The raw natural gas is transported by pipeline from the wells to a processing plant for treatment to meet sales-quality natural gas specifications.

The RET Complex and the Harmattan Complex are the Partnership's natural gas processing assets.

2. NGL Extraction

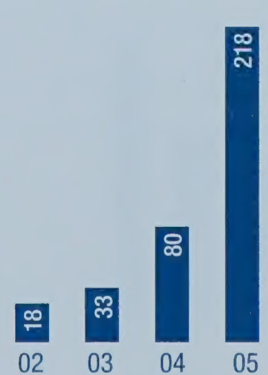
Extraction plants take sales-quality natural gas off the transmission system and recover most of the ethane and all of the propane, butane and condensate as a liquid mixture. The liquid NGL products are sold to various markets and the residue natural gas stream is returned to the transmission system.

The Partnership has interests in two NGL extraction plants: the Younger Extraction Plant and the Joffre Extraction Plant.

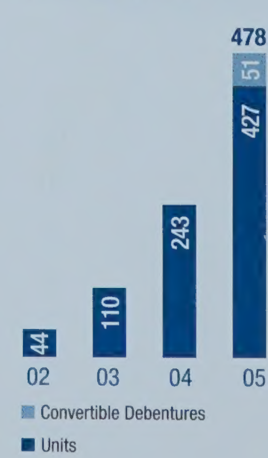
3. NGL Transportation

Taylor has a 100 percent interest in two NGL pipelines: the Ethylene Delivery System and the Joffre Feedstock Pipeline. Both lines are between Joffre, Alberta and Fort Saskatchewan, Alberta, a distance of 180 kilometres.

Capital and Acquisitions
($ million)



Market Capitalization
($ million at year end)



Generating Stable Distributions

Taylor provides services to oil and natural gas producers and produces significant volumes of NGL. Service contracts are structured to ensure an appropriate level of financial risk to the Partnership. Taylor's NGL production is sold under long-term contracts with terms that give the Partnership limited exposure to commodity prices.

Financial Stability

Taylor distributes a significant portion of the cash from normal operations. The high payout ratio is justified by the low-risk business model and long-life assets.

Due to their strategic geographical location and position in the oil and gas value chain, the economic life of the Partnership's assets is measured in decades. Both the Harmattan Complex and the RET Complex can provide long-term net operating income based on regional natural gas reserves and production profiles. Similarly, the NGL extraction business is founded on regional natural gas supply and demand. The Younger Extraction Plant is supplied from the robust natural gas producing region of northeast British Columbia, while the Joffre Extraction Plant depends on the fuel gas demands of central Alberta's ethane-based petrochemical business. The Partnership's NGL pipelines are part of the petrochemical industry's critical infrastructure.

Growth

In 2005, the mandate of the Partnership was expanded with management charged with making investments in Canadian energy infrastructure assets. This mandate is being aggressively pursued. In 2005, Taylor invested $196 million in major acquisitions, financed with a combination of equity, convertible debentures and debt.

Organic growth initiatives are funded from debt and cash available for distribution that is retained. In 2005, Taylor invested $21 million in organic opportunities.

The growth investments made in 2005 resulted in Taylor's market capitalization growing to $478 million at year-end.

Sustaining the Business

Capital projects that are undertaken to maintain the safe and efficient operation of Taylor's facilities for the long-term are specifically identified as sustaining capital projects. These projects are funded from cash provided by operations as they do not result in incremental net operating income. In addition, a significant portion of operating expense pertains to maintenance activities. An example is plant turnarounds.

In 2005 Taylor's sustaining capital program totaled $1 million. A further $3 million was incurred to complete major turnarounds at the Harmattan Complex and the Retlaw Plant plus minor turnarounds at the Younger and Joffre extraction plants.

Letter to Unitholders

1. RET Complex: Retlaw Gas Plant
2. Joffre Feedstock Pipeline
3. Harmattan Complex: Reciprocating Compressor Panel
4. Joffre Extraction Plant: Fractionation Towers

Taylor's focus on providing stable distributions may suggest that we strive to maintain the status quo. The fact is that 2005 was the third consecutive year of dramatic growth as, during the year, the Partnership increased distributions by 9 percent, invested $218 million, reorganized the management structure to eliminate management fees, and significantly increased market capitalization. Bottom line, our business model, centered on owning and operating reliable, long-performing assets, has provided excitement for our investors.

In 2005, distributions of $0.695 per unit were made to investors on a 100 percent tax-deferred basis. In addition, the price of Taylor units increased by $1.62 to $10.05. The sum of distributions and unit price appreciation provided unitholders with an annual total return of more than 27 percent.

Taylor's market capitalization increased by $235 million during 2005, mainly as a result of a $120 million equity offering completed in the first quarter. The proceeds of the offering were used to partially fund the purchase of the Harmattan Complex. The increased market capitalization has significantly improved liquidity. In 2005, an average of 90,000 Taylor units traded on a daily basis.

Taylor's Assets

The Partnership owns and operates facilities that fall in the infrastructure, or midstream, sector of the western Canadian natural gas and NGL industries. Taylor's six assets can be grouped into three distinct business lines: natural gas processing, NGL extraction and NGL transportation.

Natural Gas Processing

The Harmattan Complex, which was acquired in the first quarter of 2005, has a licensed natural gas processing capacity of 490 MMscf per day. In addition, the facility can process up to 25,000 barrels per day of natural gas liquids into specification ethane, propane, butane, condensate and frac oil. Commercial grade, liquid CO_2 is also produced by Taylor at this location as a by-product of natural gas processing. The Partnership is the sole owner and operates the complex.

The RET Complex is a group of three interconnected natural gas processing plants – Retlaw, Enchant, and Turin – plus 500 kilometres of associated gathering pipelines and 30 compressors. Processing capacity at the RET Complex is 130 MMscf per day. The Partnership has an 86 percent average interest in the facilities and operates the three plants.

Harmattan Complex
1. *Demethanizer Tower*
2. *Fractionation Tower*
3. *Tailgas Incinerator Stack*

NGL Extraction

The Younger Extraction Plant has a 750 MMscf per day capacity with connections to three natural gas transmission systems: the Duke Energy Gas Transmission system that serves British Columbia and the Pacific Northwest; the Canadian Natural Resources Stoddart system that transports natural gas to Younger from northeast British Columbia; and the Alliance system that moves natural gas to the Chicago area. The Partnership has a 57 percent interest in the NGL recovery facilities and a 100 percent interest in the fractionation, treating and terminalling facilities.

The Joffre Extraction Plant recovers NGL from the fuel gas that is consumed by NOVA Chemicals Corporation's nearby world-scale petrochemical facility and the companion plants that comprise the Joffre industrial complex. Processing capacity at the Joffre Extraction Plant is 250 MMscf per day. Taylor has a 50 percent interest in the facility and is the operator.

As extraction plants, the profitability of both the Younger and Joffre plants depends on the margin between the NGL sales price and the cost of natural gas purchased as feedstock. Taylor has commercial arrangements in place at both plants to manage the Partnership's exposure to price movements in these commodities. An asymmetrical risk profile has been achieved that gives the Partnership a minimum sales price for its NGL that covers costs while maintaining economic participation in commodity price upturns through profit-share arrangements at Younger and the merchant sale of Joffre production.

NGL Transportation

The Joffre Feedstock Pipeline, which initiated service in the first quarter of 2005, transports propane feedstock, sourced in Fort Saskatchewan, Alberta, for NOVA Chemicals Corporation's Joffre petrochemical complex. In turn, the Ethylene Delivery System transports a portion of NOVA's ethylene production at Joffre to markets in Prentiss, Alberta and in the Edmonton/Fort Saskatchewan area.

Growth

The Partnership's goal is to grow distributions to unitholders with full consideration for the financial risks to which the Partnership is exposed. Taylor takes on risks that are manageable and sheds risks that are inappropriate.

In 2005, Taylor completed three major transactions:

- On March 15, commercial operations commenced on the $55 million Joffre Feedstock Pipeline. By year-end 2005, Taylor had invested a further $5 million in the pipeline to provide enhanced service.
- On March 22, 2005 the Partnership closed the purchase of the Harmattan Complex at a cost of $177 million. By year-end 2005, Taylor had increased the raw natural gas and NGL volumes processed under our fee-for-service arrangements with customers by 2 percent and 99 percent respectively.

Harmattan Complex
1. CO_2 Product Storage Bullet
2. Residue Gas Compressor
3. Fractionation Tower
4. Combustion Air Blower Control Panel

- On June 29, 2005 the corporate and management structure of the Partnership was simplified when the Partnership acquired interests and assets from Taylor Management Company Inc. These transactions, which were effective January 1, 2005, eliminated all management fees and minority interests.

Environmental Opportunities

In 2005, Taylor benefited from environmental initiatives at two of our facilities. Equipment installed in 2004 at the Turin Plant for the underground disposal of CO_2 and H_2S recovered from the raw natural gas processed at the plant has created emission offsets. In July, EPCOR acquired 60,000 tonnes of emission offsets from Taylor plus the rights to an additional 500,000 tonnes that are expected to be created over the next eight years at the plant.

Taylor was a 2005 recipient of BC Hydro's Power Smart Excellence award for outstanding achievements in energy efficiency and innovation at the Younger Extraction Plant. Through energy efficiency improvements, the plant has reduced annual power consumption by 1.9 gigawatt hours.

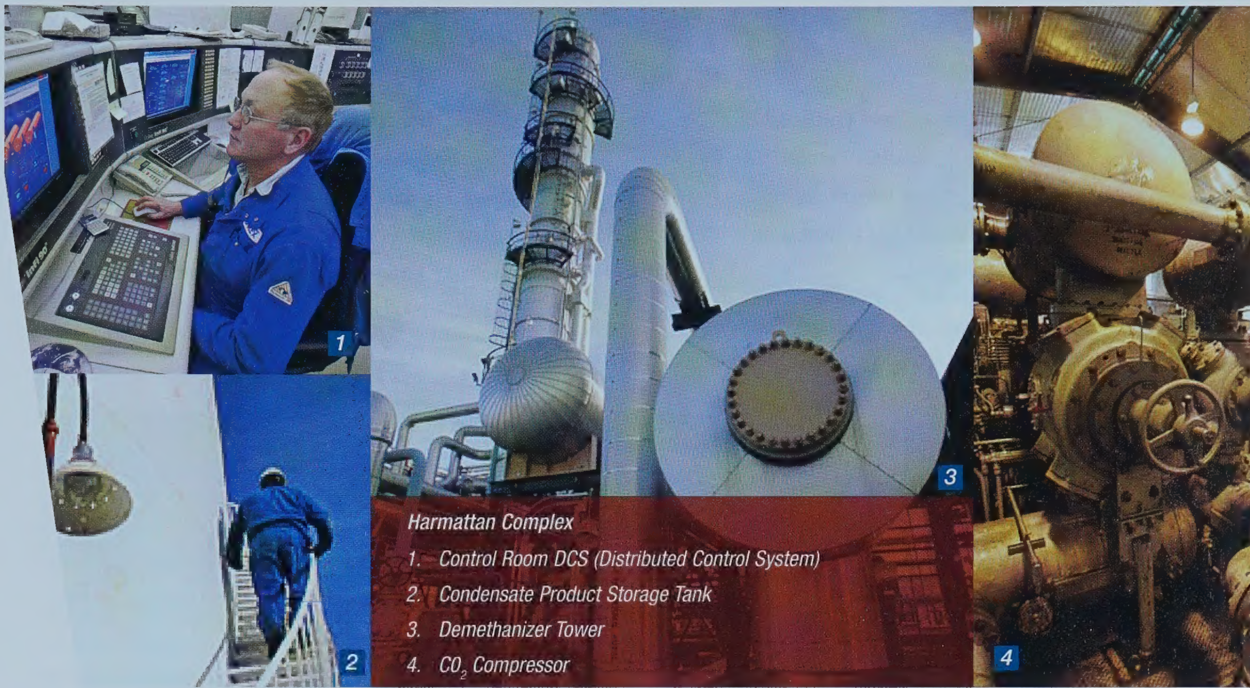
Outlook

The expectation of continued strong natural gas prices is driving active exploration and development of natural gas reserves by producing companies. The RET Complex and the Harmattan Complex are benefiting from the high level of producer activity in their capture areas. In 2005, approximately 125 drilling licenses were issued in the Harmattan Complex area, a 60 percent increase from 2004. A similar trend has been observed around the RET Complex, where an estimated 235 drilling licenses were issued in 2005, a 15 percent increase from 2004.

In early 2006, natural gas prices have fallen from the very high levels experienced in late 2005. NGL prices are strong, reflecting the price linkage between NGL and crude oil, providing reasonable margins in the production and sale of NGL.

Growth in NGL production at the Younger Extraction Plant will depend on management's ability to increase the volumes of natural gas contracted to the plant. Taylor will continue to compete for natural gas by offering customers creative commercial arrangements and pricing options. Similarly, NGL production at the Joffre Extraction Plant will depend on the volume of natural gas processed. The natural gas available to the Joffre Extraction Plant is a function of fuel gas demand at NOVA Chemicals Corporation's adjacent petrochemical facility and other facilities that comprise the Joffre industrial complex.

The cost-of-service arrangements in place for the Ethylene Delivery System and the Joffre Feedstock Pipeline translate into minimal financial risk to the Partnership.



Harmattan Complex

1. Control Room DCS (Distributed Control System)
2. Condensate Product Storage Tank
3. Demethanizer Tower
4. CO_2 Compressor

Entering 2006, management is continuing its growth focus through projects and acquisitions that will diversify the Partnership's asset base and increase net operating income and cash available for distribution.

Acknowledgements

The Board of Directors and management acknowledge the exceptional contributions of Andy Younger and Gary Benoit, both of whom passed away in 2005. Dr. Younger was involved with Taylor since its inception, most recently in the capacity of advisor to management. As an acknowledged industry leader in the areas of plant operations, design and risk management, Dr. Younger's contribution will be missed.

Mr. Benoit was a senior member of the Younger Plant operations staff who had also been with Taylor since 1996. Recently, Mr. Benoit was responsible for regulatory compliance and Taylor's safety program, an assignment that he took on with unparalleled enthusiasm. Taylor's success as a plant owner and operator is a direct function of the reliability of our facilities. We achieve this by having the highest quality staff operating our assets in the most professional and safe manner possible. Mr. Benoit exemplified this philosophy.

The Board of Directors and management thanks the staff in Calgary and at each of the facilities – Younger, Joffre, RET and Harmattan for their contributions in 2005.

As Taylor continues to move beyond its British Columbia roots, the directors have contributed wisdom and guidance and we thank them for their support during the year.

We also thank our investors and look forward to continuing to provide value to the unitholders of Taylor NGL Limited Partnership.

On behalf of the Board of Directors,

Bob Pritchard

Robert J. Pritchard
President and Chief Executive Officer
Taylor Gas Liquids Ltd.
February 3, 2006

Corporate Governance

The Board of Directors of Taylor Gas Liquids Ltd., the general partner of Taylor NGL Limited Partnership, is comprised of seven directors, six of whom are independent of management. The Chairman of the Board is an independent and unrelated director.

The Board of Directors oversees the conduct of management and the business of the Partnership. Management is responsible for the day-to-day business of the Partnership.

The Board's objectives include:

- Enhancing and preserving the cash available for distribution to the Partnership's unitholders.
- Continuing to grow the Partnership's business and asset base.
- Ensuring that the Partnership and Taylor Gas Liquids Ltd. meet their contractual, regulatory and public obligations.
- Ensuring that the Partnership's assets are operated in a reliable and safe manner.

In discharging their duties, the directors act honestly and in good faith with the diligence and skill that reasonably prudent people would exercise in comparable circumstances.

There are three Board committees: the Audit Committee, the Environment, Health and Safety Committee and the Governance and Compensation Committee. Each committee reports to the Board of Directors.

Audit Committee

As per the mandate, the following are the major responsibilities of the committee:

- Review the annual budget and any financial forecasts which are disclosed in public documents.
- Recommend the firm to be appointed as the Partnership's external auditors.
- Review the Partnership's interim and annual consolidated financial statements, MD&A and earnings press releases prior to public disclosure to ensure they are fairly presented and, in all material respects, are in accordance with Canadian generally accepted accounting principles.

At a minimum, the Audit Committee meets quarterly with management and the Partnership's auditors. The Audit Committee has the authority to investigate any activity of the Partnership or its subsidiaries. The Audit Committee may retain persons having special expertise to assist it in fulfilling its responsibilities.

Environment, Health and Safety Committee

As per the mandate, the following are the major responsibilities of the committee:

- Ensure the Partnership maintains a health, safety and environment program which, at a minimum, meets industry standards.
- Ensure that the Partnership regularly undertakes compliance reviews with specific focus on environmental protection, risk management, accident reporting and investigation, contingency planning, and protection of the health and safety of employees, contractors and the public.

Governance and Compensation Committee

As per the mandate, the following are the major responsibilities of the committee:

- Through discussions with the Chief Executive Officer, establish a performance management program and set performance goals that are aligned with the Partnership's business plan.
- Ensure the management structure of the Partnership is appropriate and effective.
- Ensure that the Board of Directors conducts itself as per the Partnership's Governance Principles and Guidelines and the Code of Business Conduct and Ethics. Periodically review and update the code and the guidelines to include current best practices.

Readers are referred to the Information Circular relating to the Partnership's 2005 annual general meeting where a more detailed overview of corporate governance practices can be found.

Directors

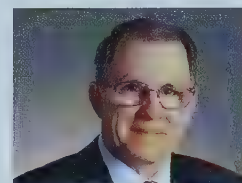
Ian D. Bruce
Calgary, Alberta
President and Chief Executive Officer, Peters & Co. Limited

David W. Cornhill
Calgary, Alberta
Chairman and Chief Executive Officer, AltaGas Income Trust

James W. Davie
Toronto, Ontario
Independent Businessman

Hugh A. Fergusson
Calgary, Alberta
Independent Businessman

Walentin (Val) Mirosh
Calgary, Alberta
Vice President, NOVA Chemicals; President, Olefins & Feedstock



Donald J. Nelson
Calgary, Alberta
President, Fairway Resources Inc.

Robert J. Pritchard
Calgary, Alberta
President and Chief Executive Officer, Taylor Gas Liquids Ltd.

Officers

Terry Killackey
Vice President of Business Development

Brad Mattson
Secretary and Chief Financial Officer

Gord Salahor
Vice President of Commercial Operations

David J. Schmunk
Chief Operating Officer

Management's Discussion and Analysis

As at February 3, 2006

The following should be read in conjunction with the consolidated financial statements and notes of Taylor NGL Limited Partnership (the Partnership). The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Additional information relating to the Partnership, including the Partnership's Annual Information Form, is available on SEDAR at www.sedar.com.

This Management's Discussion and Analysis contains certain forward-looking statements that are based on the Partnership's current expectations, estimates, projections and assumptions in light of its experience and its view of historical trends. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", "targets" and similar expressions. These statements are not guarantees of future performance and are subject to a number of risks and uncertainties as detailed in the Partnership's Annual Information Form under the heading "Risk Factors". Undue reliance should not be placed on these forward-looking statements as both known and unknown risks and uncertainties may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Examples of areas of risk and uncertainty include: volume of natural gas delivered for processing at the Partnership's facilities; ability of the facilities to process the natural gas delivered; cost of operating the facilities; cost of maintaining the facilities; and volume and value, net of feedstock costs, of the Partnership proprietary products such as CO_2, frac oil and NGL. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Such forward-looking statements are expressly qualified by the above statements.

Tabular amounts are expressed in thousands of dollars except per unit amounts. All figures are in Canadian dollars unless otherwise stated. All volumes are net to the Partnership unless otherwise stated.

The term "Cash Available for Distribution" refers to the amount of cash that has been, or is, available for distribution to the Partnership's unitholders prior to any withholdings or reserves that the Board of Directors may make pursuant to the terms of the Partnership's Limited Partnership Agreement. Cash Available for Distribution is defined as net income plus non-cash items such as depreciation, amortization, accretion, mark-to-market gain or loss, unrealized foreign exchange gain or loss, adjustments for one-time items and less "Sustaining Capital" and "Reserve for Future Commitments". One-time items are specifically described when they occur.

Sustaining Capital is defined as capital expenditures necessary to maintain the safe and efficient operation of Taylor's facilities for the long-term. Prior to the acquisition of the Harmattan Complex, in the first quarter of 2005, Taylor did not specifically identify these expenditures as they were not significant. Sustaining Capital items are not expensed due to the extended life of these investments.

Reserve for Future Commitments is defined as expenditures known by the Partnership with respect to prior periods, but not deducted from net income due to guidelines established by the CICA. An example of such an expenditure is the cost of the Restricted Share Units (RSUs) that have been granted under the Partnership's Long-term Incentive Plan (LTIP) that are based on 2005 results but vest in future periods. Under section 3870 of the CICA Handbook, RSUs are classified as stock appreciation rights and therefore are recorded as a compensation expense over the vesting period. The Partnership elected to reduce Cash Available for Distribution in the fourth quarter of 2005, by charging the Reserve for Future Commitments with an amount equal to the December 31, 2005 estimated value of the RSUs granted with respect to 2005 results. The Reserve for Future Commitments will be drawn down as the RSUs vest over the next three years. This treatment results in 2005 Cash Available for Distribution being burdened with the cash cost of the 2005 RSUs awarded. No funds or separate banking arrangements have been established for this reserve.

Taylor uses the term "Net Operating Income" to assist in assessing the ability of the Partnership to generate cash from normal operations. Net Operating Income is defined as natural gas liquids sales plus fee income, less shrinkage gas expense, operating costs and overhead recovery fees.

The terms Cash Available for Distribution, Sustaining Capital, Reserve for Future Commitments and Net Operating Income are not recognized by Canadian generally accepted accounting principles (GAAP). Therefore, these terms have no standardized meaning and may not be comparable to similarly defined amounts presented by other issuers.

Overview of the Year 2005

Operations

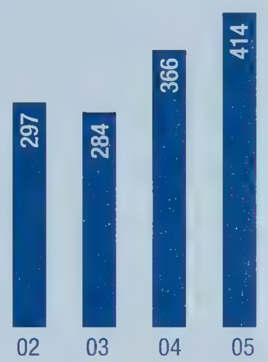
Taylor's growth continued with significant increases in natural gas volumes processed and NGL sales in 2005 compared to 2004. The natural gas volumes processed net to Taylor during the year were 414 MMscf per day compared to 366 MMscf per day in 2004, an increase of 13 percent. The increase is mainly the result of significant volumes added from the Harmattan Complex acquisition, completed on March 22, 2005. In the fourth quarter of 2005, Taylor processed an average 426 MMscf per day of natural gas.

Taylor achieved a natural gas processing record in 2005, despite the major turnarounds that were completed during the second quarter. In April, Taylor completed a scheduled 20-day turnaround at the Harmattan Complex. The Harmattan Complex requires this level of turnaround approximately every three years. A scheduled five-day turnaround at the Joffre Extraction Plant was also completed in April. On June 20, turnarounds at non-operated facilities located upstream of the Younger Extraction Plant reduced natural gas flows to the plant. Management took advantage of the resulting 17-day outage to complete various inspections and capital projects.

Taylor's NGL sales during the year were 16,712 barrels per day compared to 14,769 barrels per day in 2004, an increase of 13 percent, largely attributable to the addition of the Harmattan Complex. Taylor exited 2005 with fourth quarter NGL sales averaging 17,688 barrels per day. Taylor sets production rates at both the Younger and Joffre extraction plants primarily in response to prevailing NGL margins. The NGL margin is defined as the difference between the sales price of NGL and the cost of the natural gas purchased for shrinkage make-up. Taylor provides a benchmark, or indicative margin, expressed in dollars per barrel of NGL, which is derived from Edmonton postings for propane, butane and condensate (collectively known as C_3+) and the daily AECO natural gas price.

During 2005, the benchmark NGL margin averaged $8.78 per barrel, down from the 2004 average of $9.92 per barrel as natural gas prices increased relative to NGL prices. NGL margins were volatile during 2005; the monthly average NGL margin ranged from $1.31 per barrel in December to $12.41 per barrel in July. This volatility required Taylor to evaluate its extraction plant operating strategies on a daily basis. During the fourth quarter, C_3+ production at the Younger Extraction Plant was curtailed for 15 days and at the Joffre Extraction Plant for 14 days. Taylor's NGL production at the Harmattan Plant is not exposed to NGL margins due to its underlying commercial arrangements; the Harmattan Plant was operated to maximize production throughout the year.

Natural Gas Processed
(MMscf/day)



NGL Production
(barrels/day)

NGL Margin
($/barrel)

Capital

On March 15, 2005, the Joffre Feedstock Pipeline (JFP) which moves NGL from Fort Saskatchewan, Alberta to Joffre, Alberta commenced commercial operations. Construction of this pipeline began in August 2004. NOVA Chemicals Corporation (NOVA Chemicals) is the sole shipper on the pipeline and pays Taylor a transportation fee that is the sum of a return-on-capital fee plus actual costs incurred in the operation and maintenance of the pipeline. To December 31, 2005 the Partnership had invested $60.0 million in JFP. Taylor's other pipeline asset is the Ethylene Delivery System (EDS), which transports ethylene from Joffre to Fort Saskatchewan. On August 19, 2004, the Partnership acquired EDS for $25.0 million.

On March 22, 2005, the Partnership closed the acquisition of the Harmattan Complex, located approximately 100 kilometres north of Calgary, Alberta, with an effective date of March 1, 2005. The complex includes a gas processing facility capable of processing 400 MMscf per day and associated gas gathering systems, a deep-cut NGL extraction facility and NGL fractionation and terminalling facilities.

The Harmattan Complex is located in a multi-zone, predominantly natural gas region and has a capture area encompassing approximately 1,750 square kilometres. The complex is accessed by 500 kilometres of owned and third-party raw natural gas gathering pipelines. The Harmattan Complex is one of the lowest operating cost facilities in the area and is well positioned to capture incremental processing throughput from neighbouring plants as well as increased producer activity in the area.

The acquisition of the Harmattan Complex boosted the Partnership's total licensed natural gas processing capacity by 74 percent to 1,152 MMscf per day and increased net NGL production capacity by 83 percent to 55,200 barrels per day.

In accordance with Canadian generally accepted accounting principles, the operating results of the Harmattan Complex from the March 1, 2005 effective date of the purchase through March 21, 2005 have been recorded as a reduction of the purchase price.

Financial

Taylor increased revenues by $77.5 million or 55 percent from 2004, with substantial growth in both natural gas liquids sales and fee income.

Although NGL margins were volatile during the year, the Younger Extraction Plant Marketing Pool, which is the profit-share component of the sales price received by Taylor for the NGL sold under the NGL Purchase Agreement, contributed $3.6 million to revenue for the year ended December 31, 2005.

As a result of the assets added during 2005, year-over-year expenses increased by almost 50 percent. A large part of the increase is attributable to shrinkage gas, the majority of which is paid by the purchasers of Taylor's NGL production, a result of the Partnership's commercial arrangements.

Taylor's fourth quarter and annual 2005 Net Operating Income was $14.1 million and $41.1 million, respectively. The 217 percent increase from the prior year was a result of contributions from the Joffre Feedstock Pipeline (JFP), the acquisition of the Harmattan Complex and improved performance at Taylor's other facilities.

(in thousands of dollars)	Three Months ended December 31 2005	2004	Twelve Months ended December 31 2005	2004
Revenue				
Natural gas liquids sales	$ 56,647	$ 29,648	$ 169,375	$ 111,314
Fee income	14,388	8,801	48,303	26,537
	71,035	38,449	217,678	137,851
Expenses				
Shrinkage gas	47,300	25,040	138,848	92,946
Operating costs	9,655	6,075	36,742	23,622
Overhead recovery fees	–	587	965	2,357
	56,955	31,702	176,555	118,925
Net Operating Income	$ 14,080	$ 6,747	$ 41,123	$ 18,926

To finance a portion of the Harmattan Complex acquisition, the Partnership completed an equity offering on March 22, 2005 of 13,000,000 Partnership Units priced at $9.25 per unit. The offering generated proceeds of $113.9 million net of offering expenses and underwriters' commission of $6.4 million. The Partnership also issued $50 million of 5.85 percent convertible debentures maturing on September 10, 2010. The proceeds of this issue, net of underwriters' fees and costs, was $47.9 million. The debentures may be converted into Partnership Units, at the option of the holder, at a conversion price of $10.35 per unit at any time prior to maturity, subject to certain restrictions.

In the first quarter of 2005, the Partnership refinanced its existing credit facilities into a $120 million revolving term facility, the details of which are outlined in note 5 of the consolidated financial statements. As at December 31, 2005, the Partnership had drawn $91.0 million on the revolving term facility, an increase of $63.1 million from December 31, 2004. The additional debt drawn during 2005 was used to fund the construction of the Joffre Feedstock Pipeline and a portion of the Harmattan Complex acquisition.

On March 22, 2005, the Partnership refinanced its existing operating facility into a new $10.0 million operating facility, details of which are also outlined in note 5 of the consolidated financial statements. As at December 31, 2005, the Partnership had used $1.3 million of this amount to support outstanding letters of credit.

On June 29, 2005, the Partnership acquired interests and assets from Taylor Management Company Inc. (TMCI or the Manager) that related to the Partnership's businesses including the 2001 Administration Agreement. Total consideration was $12.0 million, comprised of $7.1 million cash and Partnership units valued at $4.9 million. The majority of the Partnership units issued to the Manager are escrowed until 2008. In addition, the Manager converted its holding of Taylor Gas Liquids Limited Partnership (TGLLP) Expansion Units into 97,789 Partnership units valued at $0.9 million. In accordance with the terms of the agreements covering the acquisition, there were no management fees or limited partner distributions paid for the year ended December 31, 2005. The Manager also relinquished its right to select one nominee to the Board of Directors of Taylor Gas Liquids Ltd., the general partner of the Partnership.

Cash Distributions

Cash Available for Distribution for the year ended December 31, 2005 totaled $29.6 million, a 62 percent increase over 2004. Cash Available for Distribution reported for 2005 excludes cash-funded management reorganization costs of $7.5 million incurred in the second quarter, because it was a one-time occurrence. On a weighted-average per unit basis, Cash Available for Distribution was $0.753 for 2005 compared to $0.714 per unit in the prior year, excluding one-time insurance proceeds of $1.9 million received in the fourth quarter of 2004.

During 2005, Taylor distributed $27.2 million to unitholders or $0.695 per Partnership unit compared to $12.8 million or $0.580 per Partnership unit in 2004. Of the 2005 Cash Available for Distribution, the Partnership withheld $2.4 million or 8 percent. Cash withheld may be used to support future distributions, repay debt or fund the growth initiatives of the Partnership, as determined by management and the board.

Cash Available for Distribution

	Three Months ended December 31		Twelve Months ended December 31	
(in thousands of dollars, except per unit amounts)	2005	2004	2005	2004
Funds provided by operations before changes in working capital (1)	$ 10,621	$ 7,293	$ 23,695	$ 17,899
Management reorganization costs (2)	7	–	7,523	–
Capitalized operating results (3)	–	–	720	–
Recognition of deferred performance fees (4)	–	94	–	375
Reserve for Estimated Future Commitments (5)	(1,240)	–	(1,240)	–
Sustaining Capital (6)	(479)	–	(1,070)	–
Cash Available for Distribution	$ 8,909	$ 7,387	$ 29,628	$ 18,274

(1) As provided in the Consolidated Statement of Cash Flow.

(2) One-time cash-funded management reorganization costs of $7.5 million, including transaction costs, as disclosed in note 3 of the Consolidated Financial Statements. This was added back to Cash Available for Distribution because of its one-time occurrence.

(3) In accordance with Canadian generally accepted accounting principles, the operating results of the Harmattan Complex from the effective date of the purchase, March 1, 2005, through March 21, 2005 were recorded as a $0.7 million reduction of the purchase price. This amount is a contribution to Cash Available for Distribution.

(4) In 2002, AltaGas paid the Partnership a fee, subject to repayment under certain conditions, relating to the completion of construction and commercial operations of the Joffre Extraction Plant. For the year ended December 31, 2004, $0.4 million was recognized and reported as a contribution to Cash Available for Distribution.

(5) For the year ended December 31, 2005, the Partnership elected to reduce Cash Available for Distribution by charging $1.2 million to the Reserve for Future Commitments account. This amount is equal to the future cost of the 2005 Long-term Incentive Program (LTIP) as at December 31, 2005. Over the next three years, the Reserve for Future Commitments will be drawn down as the LTIP awards vest.

(6) Sustaining Capital is defined as capital expenditures necessary to maintain the safe and efficient operation of Taylor's facilities for the long term. Sustaining Capital items are not expensed due to the extended life of these purchases.

Cash Distributed per Unit

(in thousands of dollars)	Three Months ended December 31 2005	Three Months ended December 31 2004	Twelve Months ended December 31 2005	Twelve Months ended December 31 2004
Cash Available for Distribution	$ 8,909	$ 7,387	$ 29,628	$ 18,274
Working capital returned (withheld)	(1,253)	(3,058)	(2,437)	(5,487)
Cash distributed	$ 7,656	$ 4,329	$ 27,191	$ 12,787
Cash distributions paid per unit	$ 0.1800	$ 0.1500	$ 0.6950	$ 0.5800

2006 Outlook

The expectation for continuing strong natural gas prices is driving high levels of natural gas exploration and development by producing companies. The RET Complex and the Harmattan Complex are benefiting from the high level of producer activity in their respective capture areas. Growth in NGL production at the Younger Extraction Plant will depend on management's ability to increase natural gas volumes processed. Similarly, NGL production at the Joffre Extraction Plant will depend on the volume and composition of natural gas processed at the plant. The natural gas available to the Joffre Extraction Plant is a function of fuel gas demand at NOVA Chemicals Corporation's adjacent petrochemical facility and the other facilities that comprise the Joffre industrial complex. Taylor's pipelines, JFP and EDS, generate predictable fee revenue through cost-of-service arrangements.

As per Taylor's mandate, management continues to pursue projects and acquisitions that would diversify the Partnership's asset base and increase Net Operating Income and Cash Available for Distribution.

Critical Accounting Policies and Estimates

In the preparation of the Partnership's consolidated financial statements, management has made estimates that affect the recorded amounts of certain assets, liabilities, revenues and expenses. All estimates are adjusted for events that are known to have had a significant effect on the current month's operations, such as scheduled or unscheduled plant shut-downs. Given the amount of historical data available for the Younger Extraction Plant, the Joffre Extraction Plant, the RET Complex and the Harmattan Complex, management has been able to make these estimates with a high degree of accuracy. There are no known trends, events or uncertainties to indicate that actual results will vary significantly from the estimates used for the year ended December 31, 2005, nor would any expected variance have a material effect on the financial condition of the Partnership. The most significant accounting policies and estimates are those described below.

Younger Extraction Plant Revenues and Expenses

Given the nature of the Partnership's commercial arrangements at the Younger Extraction Plant, estimates are not significant in the preparation of the Partnership's financial statements. Estimates applied to revenue and accounts receivable are offset completely by estimates for expenses and accrued liabilities.

Harmattan Complex and Joffre Extraction Plant Natural Gas Liquids Sales

Natural gas liquids sales from the Harmattan Complex include the sale of ethane, C_3+, frac oil and industrial-grade liquid carbon dioxide. Natural gas liquids sales from the Joffre Extraction Plant include the sale of C_3+ production. Natural gas liquids sales for the most recent month are based on estimates. Accordingly, the financial statements contain an estimate of one month's revenue based upon expected volumes and product prices, supported by comparison to historical trends. The revenue estimate for natural gas liquids sales for the month of December 2005 was $6.5 million, which was included in revenue and accounts receivable.

Harmattan Complex and RET Complex Fee Income

Actual production and fees earned at the Harmattan and RET complexes for the most recent month are based on estimates. Accordingly, the financial statements contain an estimate of one month's revenue based upon expected volumes and expected fee rate supported by comparison to historical trends. The revenue estimate for fee income for the month of December 2005 was $2.9 million, which was included in revenue and accounts receivable.

EDS and JFP Revenues and Expenses

The Partnership has entered into transportation agreements and operating agreements with NOVA Chemicals with respect to EDS and JFP. The payments made to the Partnership by NOVA Chemicals for transportation services are the sum of a fixed, transport-or-pay fee plus full recovery of actual costs incurred in operating the pipelines. Given the nature of the commercial arrangements, estimates are not significant in the preparation of the Partnership's financial statements for EDS or JFP. Estimates applied to revenue and accounts receivable are offset completely by estimates for expenses and accrued liabilities.

Harmattan Complex and Joffre Extraction Plant Shrinkage Gas Expense

At the Harmatan Complex the cost and quantity of natural gas purchased for shrinkage make-up or NGL purchased as feedstock for frac oil production for the most recent month are based on estimates. At the Joffre Extraction Plant, shrinkage gas expense estimates pertain to the extraction of NGL excluding ethane. Pursuant to the Ethane Supply Agreement, the shrinkage gas expense attributable to ethane is to the account of NOVA Chemicals. Accordingly, the financial statements contain an estimate of one month's shrinkage gas and feedstock expenses based upon expected volume and expected natural gas and condensate prices supported by comparison to historical trends. The estimate for shrinkage gas expense for the month of December 2005 was $5.4 million, which was included in expenses and accounts payable.

Harmattan Complex, RET Complex and Joffre Extraction Plant Operating Costs

The period in which invoices are rendered for the supply of goods and services necessary for the operation of the Harmattan Complex, RET Complex and Joffre Extraction Plant is generally later than the period in which the goods or services are provided. Accordingly, the financial statements contain an estimate of one month's operating costs based upon a review of actual activity at each facility, including adjustments for events that are known to have a significant effect on the month's operations. These include maintenance activity or changes in production supported by comparison to historical trends. At December 31, 2005, operating expenses and accounts payable included an estimate for operating expenses of $1.1 million.

Harmattan Complex Inventory

Harmattan Complex inventory is comprised primarily of NGL product for sale. Inventory is valued at the lower of cost and net realizable value. Cost is determined on a volume-weighted basis, calculated monthly. The quantity of NGL inventory is subject to allocations which for the most recent month are based on estimates. Expected net realizable value is based on NGL market prices at the end of each month. At December 31, 2005, there was no NGL inventory on hand at the Harmattan Complex.

Operating Results Summary

Consolidated Overview – Quarterly Information

(in thousands of dollars, except volume and unit amounts)

2005 (Quarter Ended)	March 31	June 30	Sep 30	Dec 31	Total
Gas processed (MMscf per day)	395	401	431	426	414
NGL sales (barrels per day)	16,476	15,373	17,315	17,668	16,712
Total revenue	35,852	49,030	61,788	71,036	217,706
Feedstock cost	22,816	29,134	39,598	47,300	138,848
Net income	4,246	(7,768)	5,090	7,701	9,269
Net income before management reorganization costs	4,246	364	5,090	7,708	17,408
Basic per unit	0.14	0.01	0.12	0.18	0.44
Net operating income	7,446	7,200	12,397	14,080	41,123
Cash Available for Distribution	6,749	4,848	9,122	8,909	29,628
Distributions paid to unitholders per unit	0.1650	0.1725	0.1775	0.1800	0.6950
Units outstanding at end of period	41,869,952	42,531,490	42,531,490	42,535,240	42,535,240

2004 (Quarter Ended)	March 31	June 30	Sep 30	Dec 31	Total
Gas processed (MMscf per day)	350	354	384	375	366
NGL sales (barrels per day)	15,280	13,103	14,874	15,805	14,769
Total revenue	31,999	31,352	36,388	40,435	140,174
Feedstock cost	22,100	21,067	24,739	25,040	92,946
Net income	1,841	2,051	2,837	5,318	12,047
Basic per unit	0.10	0.10	0.12	0.19	0.52
Net operating income	3,647	3,674	4,858	6,747	18,926
Cash Available for Distribution	3,148	3,381	4,358	7,387	18,274
Distributions paid to unitholders per unit	0.1400	0.1400	0.1500	0.1500	0.5800
Units outstanding at end of period	20,463,102	20,463,102	28,520,452	28,862,952	28,862,952

The quarter-by-quarter results reflect the growth of the Partnership. Growth in revenue and net income, before management reorganization costs, is due to Taylor's acquisitions and investments, especially the addition in 2005 of the Harmattan Complex. Net income during 2005 decreased compared to 2004 due to the one-time costs associated with the June 29, 2005 management reorganization and non-cash expenses such as depreciation, amortization and accretion. These additional expenses were partially offset by income from the EDS and JFP pipelines and the Harmattan Complex, and the mark-to-market gain on financial instruments.

The Partnership's Net Operating Income and Cash Available for Distribution has increased steadily due to the acquisition of EDS in August 2004, the acquisition of the Harmattan Complex and the completion of JFP construction, both in March 2005, and exposure to strong NGL margins.

Quarterly variations in total revenue are primarily the result of the recovery of Younger Extraction Plant and Harmattan Complex shrinkage gas expense, which is included in NGL sales. The recovery of the cost of shrinkage gas is reflected in NGL sales. In addition, Taylor's fee-based revenue continues to grow due to the addition of processing fees earned at both the Harmattan Complex and RET Complex, and transportation fees earned by EDS and JFP.

Cash Distributions

Commencing January 2005, the Partnership paid cash distributions on a monthly basis to unitholders of record on the tenth day of each month. Distributions are payable on the 15th day of that same month. Previously, the Partnership paid cash distributions on a quarterly basis. For 2005, cash distributions were 100 percent tax deferred and characterized as a "return of capital". The return of capital will reduce the cost base of each unit for the purpose of calculating any capital gains when the units are ultimately sold.

In 2005, Taylor generated $29.6 million in Cash Available for Distribution, compared to $18.3 million in 2004. The increase of $11.4 million in 2005 was mainly due to the addition of the Harmattan Complex, completion of JFP, a full year contribution from EDS and additional income provided by the Younger Extraction Plant and Joffre Extraction Plant as a result of strong NGL margins.

During 2005, Taylor distributed $27.2 million to unitholders ($0.695 per Partnership unit) compared to $12.8 million ($0.580 per Partnership unit) in 2004. In 2005, the Partnership withheld $2.4 million (8 percent) of Cash Available for Distribution. During 2004, the Partnership withheld $5.5 million (30 percent), including insurance proceeds of $1.9 million.

Cash distributions declared for each period are derived by adding back non-cash items to net income, deducting Sustaining Capital and Reserves for Future Commitments and adjusting for discretionary working capital amounts which the Board of Directors deems necessary. Discretionary working capital can be used to support distributions, repay debt or fund the growth initiatives of the Partnership.

During 2005, the Partnership made the following monthly cash distributions:

Date Declared	Record Date	Date Paid	Per Partnership unit
21-Dec-04	10-Jan-05	15-Jan-05	$ 0.0550
1-Feb-05	10-Feb-05	15-Feb-05	0.0550
25-Feb-05	10-Mar-05	15-Mar-05	0.0550
24-Mar-05	10-Apr-05	15-Apr-05	0.0575
26-Apr-05	10-May-05	15-May-05	0.0575
26-May-05	10-Jun-05	15-Jun-05	0.0575
27-Jun-05	8-Jul-05	15-Jul-05	0.0575
28-Jul-05	10-Aug-05	15-Aug-05	0.0600
29-Aug-05	9-Sep-05	15-Sep-05	0.0600
27-Sep-05	7-Oct-05	15-Oct-05	0.0600
31-Oct-05	10-Nov-05	15-Nov-05	0.0600
25-Nov-05	9-Dec-05	15-Dec-05	0.0600

The January 15, 2006 cash distribution of $0.060 per Partnership unit, declared December 28, 2005 to those record unitholders on January 10, 2006 has been accrued in 2005. On January 31, 2006, the Board of Directors announced a cash distribution of $0.060 per Partnership unit to those record unitholders on February 10, 2006. This distribution will be paid on February 15, 2006.

During 2004, the Partnership made the following quarterly cash distributions:

Date Declared	Record Date	Date Paid	Per Partnership unit
26-Jan-04	5-Feb-04	15-Feb-04	$ 0.1400
23-Apr-04	5-May-04	15-May-04	0.1400
26-Jul-04	5-Aug-04	15-Aug-04	0.1500
15-Oct-04	5-Nov-04	15-Nov-04	0.1500

Natural Gas Liquids Sales

NGL sales revenue is derived from the sale of production from the Younger and Joffre extraction plants and the Harmattan Complex. For the year ended December 31, 2005, NGL sales revenue was $169.4 million, compared to $111.3 million in 2004.

The increase in NGL sales revenue for the year was primarily the result of higher NGL sales prices and additional NGL volume produced from the Harmattan Complex. In addition, return-on-capital derived fixed fees increased as a result of the Manager converting its Expansion Units of TGLLP into Partnership units, effective January 1, 2005. During 2005, the Partnership averaged NGL sales of 16,712 barrels per day compared to 14,769 barrels per day in 2004.

NGL sales revenue at the Younger Extraction Plant, as per the NGL Purchase Agreement with Provident Energy Trust (Provident), includes recovery of feedstock and operating costs, a return-on-capital derived fixed fee and a 50 percent profit share based on both an operating cost hurdle (Operating Pool) and NGL margin (Marketing Pool). The NGL Purchase Agreement was acquired by Provident from EnCana Corporation (EnCana) effective December 13, 2005.

The Marketing Pool is the Partnership's upside participation in NGL commodity prices. It is defined as the difference between the sales revenue received by Provident upon the final sale of the NGL acquired from Taylor at the Younger Extraction Plant and all costs. A key feature of the Marketing Pool is that deficiencies are not charged to the Partnership, but are carried forward and recovered from future Marketing Pool revenue. Strong NGL margins realized during 2005 generated Marketing Pool proceeds of $3.6 million with a closing balance of nil at December 31, 2005 (2004 – nil).

NGL sales revenue at the Joffre Extraction Plant includes a return-on-capital derived fixed fee and recovery of operating costs attributable to ethane production as defined by the Ethane Supply Agreement with NOVA Chemicals, plus the revenue received from the sale of C_3+.

NGL sales revenue at the Harmattan Complex includes the revenue from the sale of the Partnership's ethane, frac oil and C_3+ production.

The largest component of NGL sales revenue is the recovery of Younger Extraction Plant and Harmattan Complex natural gas feedstock cost (or shrinkage gas). The AECO daily natural gas price, which is indicative of the Partnership's actual natural gas purchase price, averaged $8.27 per gigajoule (GJ) during 2005 versus $6.21 per GJ during 2004.

Fee Income

Fee income consists of revenue received from processing natural gas at the RET Complex and Harmattan Complex, third-party processing at the Younger Extraction Plant, transportation fees from the use of EDS and JFP and overhead recoveries from the facilities.

Overhead recoveries are those charges applied to operating and capital expenditures pursuant to the operating agreements with the owners at each of the facilities that the Partnership operates.

Fee income for the year ended December 31, 2005 was $48.3 million compared to $26.5 million in 2004. The significant increase in fee income was a result of additional transportation fee revenues from EDS and JFP, which began in August 2004 and March 2005, respectively. In addition, the Harmattan Complex contributed to fee income commencing March 22, 2005.

Insurance Recovery

During October 2004, the Partnership resolved outstanding legal actions related to the 1999 Younger Extraction Plant outage, which provided proceeds of $2.4 million, net of legal costs. Of this amount, $1.9 million was recognized as income and $0.5 million as a reduction of capital costs in the fourth quarter of 2004.

Shrinkage Gas Expense

The cost of natural gas feedstock, commonly known as shrinkage gas expense, was $138.8 million for the year ended December 31, 2005 compared to $92.9 million in 2004. The increase in 2005 was primarily the result of increased natural gas purchase prices, as discussed earlier, and volumes associated with the Harmattan Complex. These increased costs were offset by increases in NGL sales revenue, as previously discussed.

Operating Costs

Operating costs for the year ended December 31, 2005 were $36.7 million compared to $23.6 million in 2004. The increase was the result of the addition of EDS, JFP and the Harmattan Complex. Operating costs in 2005 also include $3.2 million of turnaround costs incurred at the Harmattan Complex, the RET Complex and the Younger and Joffre extraction plants, which were expensed in their entirety during the second and third quarters.

Depreciation, Amortization and Accretion

Depreciation, amortization and accretion expense in 2005 was $14.7 million compared to $5.8 million in 2004. The increase largely reflects depreciation, amortization and accretion related to EDS, which commenced in the third quarter of 2004, as well as JFP and the Harmattan Complex, beginning in March 2005.

Management Reorganization Costs

On June 29, 2005, the Partnership acquired interests and assets from the Manager that related to the Partnership's businesses for total consideration of $12.0 million, of which $7.7 million plus transaction costs of $0.4 million were expensed during the second quarter, for total management reorganization costs of $8.1 million.

Interest Expense

Interest costs were $6.3 million for the twelve months ended December 31, 2005 compared to $0.9 million in 2004. The increase from 2004 was a result of higher bank debt levels, higher comparative interest rates and the addition of $50.0 million of convertible debentures during the first quarter. The average annual interest rate on the Partnership's debt facilities and convertible debentures for 2005 was 5.1 percent compared to 4.5 percent for 2004.

Included in interest expense for the 2005 fiscal year is $0.9 million in accrued interest payable on the Partnership's convertible debentures. On March 22, 2005, the Partnership issued $50 million of 5.85 percent convertible debentures that mature on September 10, 2010. The debentures may be converted at any time prior to maturity, with certain restrictions, into Partnership units at the option of the holder at a conversion price of $10.35 per unit. During the second quarter of 2005, convertible debentures with a face value of $30,000 were converted into 2,898 Partnership units.

Convertible debentures were recorded as indebtedness at their principal amount less $2.3 million attributed to the conversion feature, which is included in unitholders' equity. The difference between the recorded amount and the principal amount of the convertible debentures is charged to income on an effective yield basis. The amount charged to income during 2005 was $0.3 million (2004 – not applicable).

Administration Costs and Overhead Recovery Fees

The 2005 administration costs, net of overhead recoveries, were $4.0 million compared to $1.3 million in 2004. The increase over 2004 was largely the result of changes in the relationship between the Manager and the Operating Partnerships that occurred following the management reorganization transaction as outlined in note 3 of the financial statements.

Prior to June 29, 2005, the Partnership reported the transfer of overhead recoveries to the Manager as an expense which reduced administration costs charged by the Manager to the Partnership according to the terms of the 2001 Administration Agreement. With the assignment of the 2001 Administration Agreement from the Manager to the Partnership, the Partnership no longer reports an expense for overhead recovery fees and therefore administration expenses are no longer reported net of overhead recovery fees.

For comparative purposes, the sum of administration expenses and overhead recovery fees for 2005 was $4.9 million while in 2004 the total was $3.7 million. The increase from 2004 was a result of additional costs incurred in managing the Partnership's increased asset base, increased business development activities and higher public reporting costs.

Mark-to-Market Gain on Financial Instruments

The Partnership uses derivative financial instruments such as collars and swaps to manage exposure to fluctuations in interest rates, electricity prices and U.S.-currency exchange rates. These derivative financial instruments and the method by which they are recorded are described in note 15 of the Partnership's 2005 audited consolidated financial statements.

The fair value of the interest rate swap at December 31, 2005, based on the then current market price, was an unrealized liability of $0.3 million (2004 – $0.4 million). The change in fair value during 2005 was recognized as a mark-to-market financial instrument gain of $0.1 million (2004 – $0.4 million loss). This change was largely the result of increasing five-year interest swap rates during 2005 compared to the Partnership's fixed rate of 4.41 percent and the expiry of the 2005 foreign exchange rate swap.

The fair value of the electricity rate swaps at December 31, 2005, based on the then current market price, was recognized in income as an unrealized mark-to-market gain of $1.2 million (2004 – not applicable) with an offsetting asset on the balance sheet.

Management Fees

On June 29, 2005, the Manager assigned the 2001 Administration Agreement to the Partnership. In accordance with the terms of the assignment, there were no management fees charged for the year ended December 31, 2005.

Limited Partner Distributions and Minority Interest

On June 29, 2005, the Manager converted its TGLLP Expansion Units into Partnership units. In accordance with the terms of the agreement, there were no limited partner distributions paid for the year ended December 31, 2005. This conversion of the Expansion Units has provided the Partnership with additional return-on-capital derived fixed fees paid pursuant to the NGL Purchase Agreement. In addition, the Partnership acquired the Manager's option to fund future capital expenditures incurred by TGLLP. As a result of the June 29, 2005 transaction, the Partnership is the sole Expansion Unitholder of TGLLP.

On March 18, 2004, pursuant to an annual right, the Expansion Unitholders of TGLLP elected to exchange their Expansion Units for units of the Partnership. Since 1996, the Expansion Unitholders have acquired Expansion Units by funding 26.75 percent of the capital required for projects undertaken by the Partnership at the Younger Extraction Plant. The Expansion Units provide the holder with a share, proportionate to their contributed funding, of the return-on-capital charge paid pursuant to the NGL Purchase Agreement. In executing the exchange, the Partnership issued 2,433,839 units to the Expansion Unitholders for their units of TGLLP. In addition, pursuant to the exchange, the Partnership received entitlement to the portion of the revenue paid pursuant to the NGL Purchase Agreement. The portion is based on 26.75 percent of production in excess of the 8,000 barrels per day of C_3+, which was estimated to be the Younger Extraction Plant's capacity at the time it was acquired by Taylor Gas Liquids Fund, precursor to the Partnership.

The 2004 minority interest conversion increased unitholders' equity by $16.5 million, decreased minority interest in the Partnership by $9.2 million and increased capital assets by $7.3 million.

Foreign Exchange Loss

The Partnership had combined realized and unrealized foreign exchange losses of $57,000 during 2005 (2004 – $50,000), which was the result of settling U.S.-dollar denominated return-on-capital derived fixed fees paid pursuant to the NGL Purchase Agreement.

Income and Capital Taxes

Income and capital taxes were nil in 2005 and 2004. As a limited partnership, Taylor does not provide for income and capital taxes. Due to its partnership status, Taylor's taxable income is allocated to unitholders at each year end.

Net Income

Net income was $9.3 million for the year ended December 31, 2005, compared to $12.0 million in 2004. The decrease was mainly the result of the one-time costs associated with the June 29, 2005 management reorganization and non-cash expenses such as depreciation, amortization and accretion. These additional expenses were partially offset by income provided from the addition of EDS, JFP and the Harmattan Complex, and mark-to-market gain on financial instruments.

Acquisition and Capital Expenditures

On March 22, 2005, Taylor closed the acquisition of the Harmattan Complex with an effective date of March 1, 2005, for cash consideration of $176.7 million, after adjustments, and $0.7 million of transactions costs. In accordance with generally accepted accounting principles, the operating results for the Harmattan Complex during the first 21 days of March were recorded as a reduction of the purchase price.

On June 29, 2005, Taylor acquired interests and assets from the Manager that related to the Partnership's businesses for consideration of $12.0 million, comprised of $7.1 million cash and Partnership units with a value on the closing date of $4.9 million. As described earlier, coincident with the acquisition, the Manager converted its holding of TGLLP Expansion Units into 97,789 Partnership units valued at $0.9 million. The management reorganization and minority interest conversion transactions increased unitholders' equity by $5.9 million, eliminated the minority interest in the Partnership, reduced net income by $8.1 million and increased capital assets by $5.0 million.

In addition to the above acquisitions, the Partnership funded $18.4 million of JFP construction costs during 2005 (2004 – $41.6 million). These funds will attract incremental transportation fees to be charged for the use of JFP. Also during 2005, the Partnership expended approximately $3.0 million on growth-related projects at its existing facilities. During 2005, $1.1 million of capital expenditures were designated as Sustaining Capital.

As a result of the acquisition of the Harmattan Complex and the refinancing of the Partnership's credit facilities, interest and financing fees of $1.2 million were capitalized during the year ended December 31, 2005 (2004 – $0.7 million).

During 2004, the Partnership had cash-funded capital expenditures of $72.2 million, which was largely the result of acquiring EDS and construction funding for JFP. As a result of the previously discussed insurance settlement, capital costs were reduced by $0.5 million.

During the first quarter of 2004, the Expansion Unitholders of TGLLP exchanged their Expansion Units for Partnership units. As a result, the Partnership obtained further ownership of TGLLP, which resulted in a non-cash increase in capital assets of $7.3 million during the quarter.

Equity

At December 31, 2005, Taylor had 42,535,240 Partnership units outstanding compared to 28,862,952 at year-end 2004. The increase was primarily the result of a public offering of 13,000,000 Partnership units which closed on March 22, 2005. The offering, which raised $113.9 million net of costs, was used to partially fund the acquisition of the Harmattan Complex. In addition, 627,640 Partnership units were issued on June 29, 2005 as part of the management reorganization transaction and minority interest conversion, of which 445,298 Partnership units are subject to escrow conditions.

On January 1, 2006, an aggregate of 63,614 Partnership units were released from escrow. An additional 63,614 Partnership units will be released on January 1, 2007 with the remaining 318,070 Partnership units to be released on January 1, 2008. As described earlier, the Manager converted its holding of TGLLP Expansion Units into 97,789 Partnership units valued at $0.9 million. The management reorganization and minority interest conversion transactions increased unitholders' equity by $5.9 million.

At year-end 2004, Taylor had 28,862,952 Partnership units outstanding compared to 18,005,763 at year-end 2003. The increase was primarily the result of 8,025,000 Partnership units being issued through a public offering which closed on August 19, 2004. The offering raised $50.5 million, net of costs, which was used to acquire EDS and fund construction of JFP. As discussed earlier, during the first quarter of 2004, as part of the minority interest conversion, 2,433,839 Partnership units were issued to the Expansion Unitholders in exchange for their ownership in TGLLP. This increased unitholders' equity by $16.5 million.

At December 31, 2005, the Partnership had options outstanding to purchase 419,250 (2004 – 181,500) Partnership units at prices ranging from $4.34 to $9.40 per unit. Of this amount, 130,125 options (2004 – 100,750 options) were exercisable. During the year ended December 31, 2005, 304,500 options were granted (2004 – 56,500 options). For the options granted since January 1, 2005, the average exercise price was $8.47 per Partnership unit (since January 1, 2004 – $7.81 per Partnership unit). During 2005, 41,750 options were exercised for proceeds of $0.2 million (2004 – 398,350 options for proceeds of $1.9 million).

Financial Position

The following table outlines significant changes in the consolidated balance sheets that occurred between December 31, 2004 and December 31, 2005:

(in thousands of dollars)	Increase (Decrease)	Explanation
Cash	(1,003)	Refer to Consolidated Statements of Cash Flow.
Accounts receivable	6,949	Increase a result of the Harmattan Complex acquisition and NGL sale prices.
Prepaid expenses and interest	1,116	Increase a result of higher insurance premiums with the addition of the Harmattan Complex.
Capital and intangible assets	203,777	Includes property, plant, equipment and intangible assets acquired with the Harmattan Complex, JFP construction costs, further ownership of TGLLP due to minority interest conversion and management reorganization, capitalized refinancing costs, plus additional capital expenditures made at the RET Complex and Younger Extraction Plant, less depreciation and amortization provided for all facilities during the period.
Deferred financing costs	1,804	Financing costs associated with the convertible debenture offering, less amortization thereof.
Accounts payable	(3,081)	Construction costs accrued for $9.4 million for JFP at December 31, 2004 subsequently paid and partly offset by increases as a result of the Harmattan acquisition and accrued interest on convertible debentures.
Unitholders' distributions payable	965	Increase a result of the additional Partnership units issued during the year.
Long-term debt	63,100	Increase a result of the partial funding of the Harmattan Complex acquisition, funding of JFP construction and cash consideration paid on management reorganization, offset by cash withheld from distributions.
Convertible debentures	47,970	Issue of convertible debentures for $50.0 million less the amount attributed to the conversion feature, which is included as part of unitholders' equity, plus accretion thereof.
Asset retirement obligation	2,301	Increase a result of the additional obligations associated with the acquisition of the Harmattan Complex plus accretion of obligations from the Partnership's facilities.
Unitholders' equity	103,550	Increase a result of the Partnership units issued on March 22, 2005 that raised net proceeds of $113.9 million, fair value of the conversion feature of the convertible debentures for $2.3 million, units issued with a fair value of $5.9 million as part of the management reorganization and minority interest conversion, plus options exercised for cash and net income for the period, less unitholders' distributions declared during the year.

Liquidity and Capital Resources

The following table summarizes the changes in cash flow for the year ended December 31, 2005 compared to the year ended December 31, 2004:

(in thousands of dollars)	2005	2004	Explanation
Cash, beginning of period	5,409	4,231	
Cash provided by (used in):			
Operating activities	24,851	16,811	During 2005, cash was reduced by $7.5 million in cash-funded management reorganization costs, which was partly offset by cash provided by EDS and JFP. In addition, Harmattan Complex operations have been included since March 22, 2005. EDS and JFP contributed for part of the third quarter and the full fourth quarter of 2004.
Financing activities	182,423	47,550	During 2005, cash was primarily provided by a unit offering that raised $113.9 million net of costs, a convertible debentures offering that raised $47.9 million net of costs and long-term debt drawings of $51.7 million. These funds were used for the Harmattan Complex acquisition; redemption of the $4.0 million debenture issued by the previous owners of the Harmattan Complex; JFP construction expenditures and management reorganization. Distributions paid during the year were $27.2 million. During 2004, cash was primarily provided by the August 2004 public offering that raised $50.5 million, exercise of options for $1.9 million and long-term debt drawings of $7.9 million. These funds were used for the EDS acquisition and JFP construction costs. Distributions paid during the year used $12.8 million of cash.
Investing activities	(208,277)	(63,162)	During 2005, the reduction in cash was largely a result of $176.7 million used in the Harmattan Complex acquisition, $18.4 million for funding the construction of JFP and further funding of other capital projects at the Harmattan Complex, RET Complex and Younger Extraction Plant. In addition, $9.0 million of non-cash working capital was used in the construction of JFP and other capital projects. During 2004, the reduction in cash was primarily the result of the $25.0 million EDS acquisition and $41.6 million used for the construction of JFP, after reductions from non-cash working capital used for these projects.
Effect of exchange rate changes on cash	–	(21)	Change is a result of unrealized foreign exchange loss (gain) on U.S.-dollar denominated cash balances.
Cash, end of period	4,406	5,409	

Working Capital and Cash Requirements

At year-end 2005, the Partnership had a working capital balance of $5.4 million compared to a deficit balance of $4.6 million in 2004. The working capital deficit as at December 31, 2004 was primarily the result of a JFP construction cash call for $9.4 million, which was paid in January 2005.

Due to the terms of the Partnership's commercial contracts, a significant portion of cash collections occur simultaneously with cash payments, thereby minimizing the Partnership's requirement to maintain a significant working capital position. Any timing differences, whether short or long-term, are managed with working capital or existing debt facilities.

With the exception of those items disclosed, there are no known trends, events or uncertainties to indicate any impairment in the sources or uses of cash that would have a material effect on the financial condition of the Partnership.

Commitments and Guarantees

The Partnership has assumed various commitments, guarantees and contractual obligations in the normal course of its operations.

At December 31, 2005, obligations representing known future cash payments that are required under existing contractual arrangements are as follows:

(in thousands of dollars)	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	Total
Office and vehicle leases	355	519	406	198	1,478
Land leases	67	183	170	1,262	1,682
Convertible debentures				49,970	49,970
Total commitments	422	702	576	51,430	53,130

The Partnership has issued a guarantee to indemnify the vendor of the RET Complex with respect to potential third-party claims, such as environmental and tax. Due to the nature of the indemnifications, the maximum exposure under the agreement cannot be estimated. At December 31, 2005, management had not been notified of any claims.

Upon the acquisition of the Harmattan Complex, the Partnership assumed performance guarantees with respect to the operation of the facility under the terms of the Representation, Management and Processing Agreements (the "Rep Agreements"). Currently, approximately 55 percent of the natural gas volume processed at the Harmattan Complex is subject to the terms of the Rep Agreements. If the guaranteed processing requirements cannot be met, the Partnership will be subject to penalties that could have an adverse effect on the Partnership's results. No penalties have been incurred by the Partnership since it acquired the Harmattan Complex.

Debt Facilities

As detailed below, at December 31, 2005, the Partnership had available debt facilities totaling $130.0 million, of which $91.0 million had been drawn and $1.3 million had been used to support letters of credit.

On March 22, 2005, the Partnership's credit facilities were refinanced into a $120 million revolving facility (New Revolving Facility) with an extendible 364-day revolving period and a $10.0 million operating facility. The New Revolving Facility bears interest at bankers' acceptance rates plus stamping fees plus applicable margins. The margins and stamping fees vary depending on financial statement ratios and can range from 1.15 percent to 1.65 percent. The New Revolving Facility is subject to renewal on March 21, 2006 at which time it can be extended at the lenders' option for 364 days. If the New Revolving Facility is not extended, the amount drawn is fully repayable on March 20, 2007. Management has begun the renewal process and has been assured by its syndicate bankers that the New Revolving Facility will be renewed. Taylor is in compliance with the covenants of the New Revolving Facility and has not been in contravention of these covenants since inception.

The $10.0 million operating facility also bears interest at bankers' acceptance rates plus stamping fees plus applicable margins that can vary from 1.15 percent to 1.65 percent depending on financial statement ratios. As at December 31, 2005 the amount available under this facility was reduced by $1.3 million to support outstanding letters of credit.

The New Revolving Facility and operating facility are secured by a first ranking floating-charge debenture on all of the Partnership's assets.

Financing Activities

On March 22, 2005, the Partnership closed an equity offering of 13,000,000 Partnership units at a price of $9.25 per Partnership unit. The offering raised net proceeds of $113.9 million after offering expenses and underwriters' commission of $6.4 million.

Also on March 22, 2005, the Partnership issued $50 million of 5.85 percent convertible debentures maturing on September 10, 2010, with interest payable semi-annually on September 10 and March 10 in each year. The proceeds of the issue were $47.9 million after underwriters' commission and costs of $2.1 million. Prior to maturity, the debentures may be converted into Partnership units at the option of the holder at a price of $10.35 per unit. The convertible debentures carry specific redemption features that can be exercised by the Partnership after September 10, 2008. The Partnership can elect to settle interest due on the debentures with Partnership units.

The proceeds of these two offerings were used to partially fund the acquisition of the Harmattan Complex.

On June 29, 2005, the Partnership acquired interests and assets from the Manager, as part of the management reorganization transaction, for consideration of $12.0 million, comprised of $7.1 million cash and 529,851 Partnership units valued at $4.9 million. In addition, the Manager converted its Expansion Units of TGLLP into 97,789 Partnership units, which were valued at $0.9 million.

On August 19, 2004 the Partnership closed an equity offering of 8,025,000 Partnership units at a price of $6.60 per unit. The offering raised net proceeds of $50.5 million after offering expenses and underwriters' commission of $2.5 million. The proceeds of this offering were used to acquire EDS and to fund the initial construction payment for JFP. The remaining proceeds were used to reduce the Partnership's existing bank debt in anticipation of future JFP construction cash calls.

To achieve its growth objectives, the Partnership may issue additional units or borrow funds in the future to finance the Partnership's capital expenditure requirements, acquisitions or for other reasons.

Off-balance Sheet Arrangements

As at December 31, 2005, the Partnership did not have any off-balance sheet arrangements, other than operating leases which have been disclosed elsewhere.

Risk Factors and Risk Management

Readers of the Partnership's annual report should carefully consider the risks described under the heading "Risk Factors" in the Partnership's Annual Information Form. In addition, readers should also consider the following specific risks:

Business Risks

The Partnership's NGL extraction, natural gas processing, pipeline and marketing operations are exposed to a number of risks that can significantly affect its financial results. These include internal risks such as operational and production risks, and external influences such as fluctuations in commodity prices, foreign exchange, interest rates, government regulations, taxes and environmental and safety concerns. The Partnership has structured business arrangements to mitigate the effect of certain of these risks on the Partnership's revenues and distributions.

Business arrangements include long-term sales agreements with Provident for Younger Extraction Plant production. The Partnership also has long-term agreements with NOVA Chemicals for the sale of Joffre Extraction Plant ethane production, for the use of EDS and JFP, and for the sale of Harmattan Complex ethane.

The Partnership has diversified revenues by developing businesses that have different risk profiles. These profiles include return-on-capital derived fixed fees, fee-for-service and performance-based profit share payments. Fixed-fee income is related to capital spent, whereas fee-for-service income is sensitive to the volume produced or processed and profit share revenue is exposed to variations in volume produced, operating costs and commodity prices.

Commodity Price

The Joffre Extraction Plant has been designed to allow the selective rejection of either ethane or C_3+. If NGL margins are poor, the Joffre Extraction Plant can simply not recover the C_3+ product, and thereby not incur the associated feedstock costs. Similarly, if NOVA Chemicals does not require ethane, the Joffre Extraction Plant can leave the ethane in the natural gas stream, and continue to extract C_3+, with no effect on the fixed fee received from NOVA Chemicals.

The NGL extraction, fractionation and terminalling businesses conducted at the Harmattan Complex will depend, in part, on the level of demand for NGL. The Partnership cannot predict the impact of future economic conditions, fuel conservation measures, alternative fuel requirements, governmental regulation or technological advances in fuel economy and energy generation devices, all of which could reduce the demand for natural gas and NGL.

Due to the feedstock alternatives available to the petrochemical industry, there is a historical relationship between NGL prices and crude oil prices. As crude oil price falls, NGL prices will generally decrease subject to other factors that influence supply-demand balance.

NGL production from the Harmattan Complex competes with other producers of NGL such as extraction plants, other field plants, and refineries, some of which may have a lower cost of production than the Partnership and are closer to end markets. The NGL industry also competes with other industries in supplying energy, fuel, petrochemical and refinery feedstock and other related products to consumers.

Credit Risk

A significant portion of revenue from the Younger Extraction Plant is received from a single customer, Provident, under the NGL Purchase Agreement. Similarly, a significant portion of Joffre Gas Liquids Limited Partnership revenue is received from a single customer, NOVA Chemicals, under the Ethane Supply Agreement, the EDS Transportation Agreement and the JFP Transportation Agreement. In addition, the majority of ethane produced by the Harmattan Complex is purchased by NOVA Chemicals under a long-term agreement. The remaining portion of the Partnership's accounts receivable are with joint-venture partners in the oil and natural gas industry and are subject to normal industry credit risks.

In the event that Provident or NOVA Chemicals are unable to fulfill their obligations under the above agreements, the Partnership's net operating income may be significantly negatively affected.

Interest Rates

Interest rates are currently at historically low levels. An increase in interest rates will increase the Partnership's borrowing expense and reduce the amount of Cash Available for Distribution. These increases will be partially offset because higher interest rates result in increased revenue to the Partnership under the NGL Purchase Agreement, the Ethane Supply Agreement, the EDS Transportation Agreement and the JFP Transportation Agreement. To manage its exposure to movements in interest rates, the Partnership matches interest expense with its interest-rate sensitive revenue streams by using floating-rate debt and interest rate swaps.

Foreign Exchange

The Partnership is exposed to foreign currency fluctuations because the return-on-capital fee under the NGL Purchase Agreement is paid in U.S. dollars. Fluctuations in exchange rates between the U.S. and Canadian dollars will therefore impact revenue.

Derivative Financial Instruments

The Partnership uses derivative financial instruments such as collars and swaps to manage exposure to fluctuations in interest rates, electricity prices and U.S.-currency exchange rates. The Partnership does not utilize derivative financial instruments for trading or speculative purposes.

The Partnership's derivative financial instruments, currently in place, are disclosed in note 15 of the Partnership's 2005 audited consolidated financial statements.

Selected Annual Information

(in thousands of dollars except per unit amounts)	2005	2004	2003
Total revenue	217,706	140,174	116,149
Net income	9,269	12,047	3,509
Basic per unit	0.24	0.52	0.31
Diluted per unit	0.24	0.52	0.30
Total assets	445,291	231,707	154,762
Total long-term liabilities	142,611	29,599	30,329
Cash distributions paid per unit	0.695	0.580	0.520

Growth in revenue, total assets and total long-term assets is a result of acquisitions and investments made by Taylor, especially the 2005 acquisition of the Harmattan Complex. Net income during 2005 decreased compared to 2004 due to the one-time costs associated with the June 29, 2005 management reorganization of $7.5 million. These additional expenses were partially offset by income provided with the addition of EDS, JFP and the Harmattan Complex, and mark-to-market gain on financial instruments.

Corporate Disclosure Policy Evaluation

The Partnership has adopted a disclosure policy. Management has confirmed that the disclosure policy was distributed to, and reviewed with, the Partnership's employees, its Board of Directors and those authorized to speak on behalf of the Partnership. Management has confirmed that the disclosure policy was adopted for the following disclosures: documents filed with the securities commissions and written statements made in the annual and quarterly reports; news releases; letters to unitholders; speeches and presentations by senior management; and information contained on the Partnership's web site and other electronic communications. The disclosure policy also extended to oral statements made in meetings and telephone conversations with analysts and investors, interviews with the media as well as press conferences and conference calls. Management has concluded that the policy has provided substantive controls and has ensured that the Partnership's communications are:

(a) timely, factual and accurate; and

(b) consistent and broadly disseminated in accordance with all applicable legal and regulatory requirements.

Management conducts ongoing reviews to ensure the effectiveness of the Partnership's disclosure policy. Any changes or enhancements identified by management are presented to the Board of Directors for approval.

Management's Report to the Unitholders

Taylor Gas Liquids Ltd., as general partner of Taylor NGL Limited Partnership, is responsible for the preparation of the consolidated financial statements and for the consistency therewith of all other financial and operating data presented in this annual report. The consolidated financial statements have been prepared in accordance with the accounting policies summarized in the Accounting Policies note. The consolidated financial statements are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and have been prepared within acceptable limits of materiality. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the consolidated financial statements. Management maintains a system of internal accounting controls in order to provide reasonable assurance as to the reliability of the financial records and the safeguarding of assets. External auditors have examined the consolidated financial statements and have expressed their opinion on the statements. Their report is included with the consolidated financial statements. The Audit Committee of the Board of Directors, which is comprised of a majority of independent directors, has discussed the consolidated financial statements with management and the external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Robert J. Pritchard
President and Chief Executive Officer
February 3, 2006

Brad G.H. Mattson
Secretary and Chief Financial Officer

Auditors' Report

We have audited the consolidated balance sheets of Taylor NGL Limited Partnership as at December 31, 2005 and 2004 and the consolidated statements of income and deficit and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2005 and 2004 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
February 3, 2006

Consolidated Balance Sheets

As at December 31,	2005	2004
(Stated in thousands of dollars except unit and per unit amounts)		
Assets		
Current assets:		
Cash and cash equivalents	$ 4,406	$ 5,409
Accounts receivable	17,640	10,691
Prepaid expenses and interest	1,414	298
	23,460	16,398
Market value of financial instruments (note 15)	941	–
Capital assets (note 4)	397,062	214,770
Intangible assets (note 4)	22,024	539
Deferred financing costs (note 6)	1,804	–
	$ 445,291	$ 231,707
Liabilities and Unitholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 15,515	$ 18,596
Unitholders' distributions payable	2,552	1,587
Due to Manager	–	457
Market value of financial instruments (note 15)	–	405
	18,067	21,045
Long-term debt (note 5)	91,000	27,900
Convertible debentures (note 6)	47,970	–
Asset retirement obligations (note 7)	3,641	1,340
Minority interest in Partnership (note 3)	–	359
	160,678	50,644
Unitholders' equity:		
Unitholders' capital (notes 3 and 8)	314,344	194,364
Convertible debentures (note 6)	2,325	–
Contributed surplus (note 9)	132	–
Deficit	(32,188)	(13,301)
	284,613	181,063
Commitments (note 14)		
Guarantees (note 16)		
Insurance claims and contingencies (note 17)		
	$ 445,291	$ 231,707

See accompanying notes to the consolidated financial statements.

Approved by the Board:

Donald J. Nelson
Director

Robert J. Pritchard
Director

Consolidated Statement of Income and Deficit

Twelve Months ended December 31	2005	2004
(Stated in thousands of dollars except unit and per unit amounts)		
Revenue:		
Natural gas liquids sales	$ 169,375	$ 111,314
Fee income	48,303	26,537
Other	28	443
Insurance recovery	–	1,880
	217,706	140,174
Expenses:		
Shrinkage gas	138,848	92,946
Operating costs	36,742	23,622
Depreciation, amortization and accretion	14,699	5,801
Management reorganization costs (note 3)	8,139	–
Interest	6,326	922
Administration	4,007	1,303
Overhead recovery fees	965	2,357
Foreign exchange loss	57	50
Mark-to-market loss (gain) on financial instruments (note 15)	(1,346)	404
Management fees (note 3)	–	700
Limited partner distributions (note 3)	–	22
	208,437	128,127
Net income	9,269	12,047
Deficit, beginning of year	(13,301)	(13,493)
Unitholders' distributions declared	(28,156)	(11,855)
Deficit, end of year	$ (32,188)	$ (13,301)
Net income per Partnership unit (note 11):		
Basic	$ 0.24	$ 0.52
Diluted	$ 0.24	$ 0.52

Consolidated Statement of Cash Flow

Twelve Months ended December 31	2005	2004
(Stated in thousands of dollars)		
Cash provided (used in):		
Operations:		
Net income	$ 9,269	$ 12,047
Depreciation, amortization and accretion	14,699	5,801
Non-cash management reorganization costs (note 3)	616	–
Accretion of convertible debentures discount	325	–
Partnership unit-based compensation (note 9)	132	–
Unrealized foreign exchange loss	–	22
Mark-to-market loss (gain) on financial instruments	(1,346)	404
Deferred performance-based revenue amortization	–	(375)
	23,695	17,899
Change in non-cash working capital (note 18)	1,156	(1,088)
	24,851	16,811
Financing:		
Units issued for cash, net of issue costs	114,063	52,354
Long-term debt	51,681	7,900
Convertible debentures, net of issue costs	47,870	–
Debenture paid on acquisition	(4,000)	–
Unitholders' distributions paid	(27,191)	(12,787)
Limited partner contributions	–	365
Due to limited partners	–	(282)
	182,423	47,550
Investments:		
Acquisition (note 4)	(176,743)	(25,001)
Capital expenditures	(22,491)	(47,168)
Change in non-cash investing working capital (note 18)	(9,043)	9,007
	(208,277)	(63,162)
Effect of exchange rate changes on cash	–	(21)
Change in cash and cash equivalents	(1,003)	1,178
Cash and cash equivalents, beginning of year	5,409	4,231
Cash and cash equivalents, end of year	$ 4,406	$ 5,409

Notes to the Consolidated Financial Statements

Years ended December 31, 2005 and 2004

(all tabular amounts are stated in thousands of dollars except unit amount)

1. Organization

Taylor NGL Limited Partnership (the "Partnership") was formed July 31, 2000 under the laws of the Province of Ontario pursuant to a limited partnership agreement. On August 16, 2000 the Partnership became the sole holder of Base Partnership Units and Class C Expansion Units of the Taylor Gas Liquids Limited Partnership (the "TGLLP"), which has an interest in the Younger Extraction Plant located at Taylor, British Columbia. Previously, the Partnership was an unincorporated trust, Taylor Gas Liquids Fund (the "Fund"), which was formed under the laws of the Province of Alberta pursuant to a Trust indenture dated May 15, 1996. The general partner of the Partnership is Taylor Gas Liquids Ltd. ("TGLL" or "General Partner"), while the limited partners are the public, holding Partnership units ("Units").

Prior to June 29, 2005, Taylor Management Company Inc. ("TMCI" or the "Manager") was a limited partner of TGLLP with the right to contribute 26.75 percent of any capital expenditures at the Younger Extraction Plant and receive additional units of TGLLP ("Expansion Units") for such contributions. On June 29, 2005, TMCI converted its existing Expansion Units into Partnership units and sold the right to contribute future TGLLP capital to the Partnership. Both transactions had an effective date of January 1, 2005. The general partner of TGLLP is Taylor Management Inc. ("TMI"). Prior to June 29, 2005, TMI was a wholly-owned subsidiary of TMCI. On June 29, 2005 the Partnership acquired all the shares of TMI from TMCI. The effective date of this transaction was January 1, 2005.

On December 31, 2001, Joffre Gas Liquids Limited Partnership ("JGLLP") was formed to be the holder of the Partnership's 50 percent interest in the Joffre Ethane Extraction Plant (the "Joffre Extraction Plant"). On August 19, 2004, JGLLP acquired a natural gas liquids pipeline, the Ethylene Delivery System ("EDS") and commenced funding construction of a second natural gas liquids pipeline, the Joffre Feedstock Pipeline ("JFP"), which was completed on March 15, 2005. Both pipelines and the Joffre Extraction Plant are located in Alberta. The Partnership is the limited partner of JGLLP. The general partner of JGLLP is TMI.

On September 4, 2003, Taylor Gas Processing Limited Partnership ("TGPLP") acquired an interest in the Retlaw, Enchant and Turin gas processing plants and their related gathering systems located near Lethbridge, Alberta (collectively the "RET Complex"). The Partnership is the limited partner of TGPLP. The general partner of TGPLP is TMI.

Through a series of transactions in March 2005, the Partnership acquired the Harmattan Gas Processing Limited Partnership ("HGPLP"). HGPLP owns and operates the Harmattan Gas Processing Complex ("Harmattan Complex"). The Partnership, through direct and indirect ownership, is the limited partner of HGPLP. The general partner of HGPLP is Taylor Processing Inc., which is wholly-owned by the Partnership.

Collectively, TGLLP, JGLLP, TGPLP and HGPLP are known as the "Operating Partnerships".

The business and affairs of the Partnership are managed by TGLL, the general partner of the Partnership. Prior to June 29, 2005, TGLL contracted with TMCI under the 2001 Administration Agreement ("Administration Agreement"), for the administration of all matters relating to the Partnership and the Partnership units. On June 29, 2005, the Manager assigned the Administration Agreement to the Partnership, the assignment having an effective date of January 1, 2005.

The Partnership makes cash distributions to its unitholders, subject to the limited partnership agreement, to the extent that the Partnership has cash available for such payment less unpaid expenses, amounts required for the business and operation of the Partnership and any cash reserve which the board of directors of the General Partner in its discretion determines necessary to satisfy the Partnership's current and anticipated obligations and liabilities.

2. Significant accounting policies

Basis of presentation

These consolidated financial statements include the accounts of the Partnership, the General Partner, the Fund and all controlled entities.

Certain comparative figures have been reclassified to conform to the current period's presentation.

Joint ventures

The Operating Partnerships contain businesses which are conducted jointly with others, and accordingly these financial statements reflect only the Partnership's indirect proportionate interest in such activities.

Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts. These estimates are subject to uncertainty and may impact the financial statements of future periods. The recognized amounts of such items are based on management's best information and judgment.

Revenue

All natural gas liquids ("NGL") produced by TGLLP at the Younger Extraction Plant are sold at the outlet of the plant under a long-term marketing agreement (the "NGL Purchase Agreement") with Provident Energy Trust ("Provident"). The NGL Purchase Agreement was acquired by Provident from EnCana Corporation ("EnCana") effective December 13, 2005. Pursuant to the terms of the NGL Purchase Agreement, TGLLP's revenue is the sum of a return-on-capital fee, recovery of operating costs and natural gas costs and a 50 percent share of the proceeds received from the final sale of NGL by Provident net of all costs (the "Marketing Pool"). If Provident's revenue from the sale of the NGL acquired from the TGLLP does not exceed costs, then future net proceeds will only accrue to TGLLP after any deficiency is retired. During 2005, the Marketing Pool contributed $3.6 million in revenue, net to TGLLP. The Marketing Pool balance was estimated to be nil as at December 31, 2005 (2004 – nil).

If the Marketing Pool deficiency is greater than $1.75 million gross at two consecutive calendar year ends, Provident has the right to terminate the NGL Purchase Agreement by giving notice to the Partnership during the first 60 days of the following calendar year and remitting a significant termination payment. As the Marketing Pool is estimated to have a nil balance at December 31, 2005, Provident does not currently have the right to terminate the NGL Purchase Agreement.

The ethane produced at the Joffre Extraction Plant is sold at the outlet of the plant under a long-term sales agreement (the "Ethane Supply Agreement") with NOVA Chemicals Corporation ("NOVA Chemicals"). Pursuant to the terms of the Ethane Supply Agreement, the sales price is the sum of a return-on-capital charge and recovery of the operating costs attributed to the production of ethane. The remaining NGL (propane, butane and condensate, collectively known as "Propane-Plus") produced at the Joffre Extraction Plant are sold into the Alberta market at prevailing prices. The Partnership's share of revenue received under the Ethane Supply Agreement and the sale of Propane-Plus is included in NGL sales.

Revenue for processing services at the RET Complex and Harmattan Complex is recorded as the services are rendered. Processing fees that are a function of volumes processed are recognized in the period in which the processing occurs. Fees which are not directly related to volumes processed, such as capital recovery, are recognized at stipulated rates over the contract periods. Fees derived from the recovery of operating expenses are recognized in the period in which the expenses are incurred.

Revenue from the Harmattan Complex also includes the sale of ethane, frac oil, industrial grade liquid carbon dioxide ("CO_2") and Propane-Plus production. Under the terms of many of the raw gas processing agreements, a component of the compensation received by the Partnership for providing services to the producers is derived from the Partnership having the right to purchase a portion of the producers' ethane and Propane-Plus for a price equal to the natural gas heat equivalent. The ethane acquired by the Partnership under the product-in-kind arrangements is sold under a long-term contract for a price that includes full recovery of the cost of acquiring the ethane from the producers plus a premium. Frac oil is a premium hydrocarbon-based product which is produced by refining condensate feedstock. Harmattan's frac oil is sold to a single customer under a two-year contract. CO_2 is recovered through the processing of raw gas to meet sales gas specifications. The liquid CO_2 is sold to a single customer under a take-or-pay contract with approximately nine years remaining. The Propane-Plus volumes acquired by the Partnership are sold into the Alberta market at prevailing prices.

The payments made to the Partnership for the use of EDS and JFP are paid by the sole shipper, NOVA Chemicals, under long-term transportation agreements. Revenue received for use of the pipelines is the sum of a fixed transport-or-pay fee and the full recovery of actual costs incurred in operating the pipelines, and is recorded as fee income.

Inventory

Inventory is comprised primarily of NGL product held for sale. Inventory is valued at the lower of cost and net realizable value. Cost is determined on a weighted-average cost basis, calculated monthly.

Capital assets

The Younger Extraction Plant is depreciated over a 40-year period, commencing July 1996, using the straight-line method of depreciation. The Joffre Extraction Plant uses the same method of depreciation commencing January 2003.

The RET Complex is depreciated over a 25-year period, commencing September 1, 2003, using the straight-line method. Included in the RET Complex capital assets is $1.0 million of intangible assets assigned to the natural gas processing contracts that were in place at the date of purchase of this facility. Amortization of the intangible assets is provided for on a straight-line basis over three years representing the period wherein the majority of the expected revenues from these contracts will be realized by the Partnership.

The EDS pipeline is depreciated over a 25-year period, commencing September 1, 2004, using the straight-line method. The JFP pipeline is depreciated over a 40-year period, commencing March 15, 2005, using the straight-line method.

The Harmattan Complex is being depreciated over a 30-year period using the straight-line method of depreciation commencing March 22, 2005. Amortization of the intangible assets that were acquired along with the Harmattan Complex is provided for on a straight-line basis over nine years.

Capital assets are recorded at cost less depreciation, net of any impairment in the carrying amount. Acquisition costs are capitalized and amortized over the life of the acquired assets. Repairs and maintenance costs are expensed in the period incurred.

Asset retirement obligations

The fair value of estimated asset retirement obligations ("ARO") is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized ARO amount for a particular asset is depreciated on a straight-line basis over the life of such asset. The long-term liability amount typically increases each reporting period due to accretion. Revisions to the estimated timing of cash flows or to the estimated undiscounted cost would also result in an increase or decrease to the ARO. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized as a gain or loss in the Partnership's net income in the period in which such settlement occurs.

Income taxes

The income of the Partnership is taxed at the partner level. As a result, provisions for income and capital taxes are not made by the Partnership.

Compensation plans

The Partnership uses the fair value method to account for options granted to employees and directors. Under the fair value method, the fair value of the options is estimated at the grant date using the Black-Scholes option pricing methodology, and such fair value is expensed over the vesting period, with a corresponding increase in contributed surplus.

The Partnership has implemented a Long-Term Incentive Plan ("LTIP"), details of which are described in note 10. The LTIP compensates officers and certain employees by issuing Restricted Share Units ("RSUs"). A RSU entitles the holder to a cash payment equal to the ten-day volume-weighted average market price of a Partnership unit on the date the RSU vests. The market price of Partnership units multiplied by the number of issued RSUs is recognized as compensation expense over the vesting period. Compensation cost is increased or decreased each reporting period as the Partnership unit market price fluctuates. From the effective date of the RSU award, the holder of RSUs receives additional RSUs equal to the cash distributions that would be paid on the number of Partnership units that the RSU award represents. The distribution-equivalent RSUs are recognized as compensation expense as earned.

Employee pension plans

The Partnership has a defined benefit pension plan for the unionized Younger Extraction Plant employees, which covered 26 active members, two retired and two deferred members as at December 31, 2005. In addition, the Partnership assumed a defined benefit pension plan with the acquisition of the Harmattan Complex. As at December 31, 2005 this plan covered 13 active members and one retired member. The defined benefit pension plan at the Harmattan Complex is not open to new members. The cost of pension benefits earned by such employees in the defined benefit plan is charged to income as services are rendered using the projected benefit method prorated for service. The cost of the defined benefit plan is based on management's estimate of the future rate of return on the fair value of pension plan assets, salary escalations, mortality and other factors affecting the payment of future benefits. If adjustments in excess of ten percent of the greater of the accrued benefit obligation and the fair value of plan assets at the beginning of the year are required due to plan amendments, changes in assumptions or experience, the resulting gains and losses would be amortized over the expected remaining average service life of the employee group. If the defined benefit pension plan is terminated and not replaced by a successor defined benefit plan, the Partnership will account for a curtailment first and then a settlement, whenever a curtailment and a settlement occur at the same time.

Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at rates of exchange in effect at the transaction date. Exchange gains and losses are recorded in income in the period in which they are incurred.

Cash and cash equivalents

Cash and cash equivalents include short-term investments with terms to maturity of three months or less at the time of purchase.

Derivative financial instruments

The Partnership uses derivative financial instruments such as collars and swaps to manage exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices, as described in note 15. The Partnership does not utilize derivative financial instruments for trading or speculative purposes. Management is required to obtain approval from the Audit Committee of the General Partner prior to entering into derivative financial instruments. The Partnership uses the fair value method for reporting derivative financial instruments, whereby a derivative financial instrument is recorded as an asset or a liability on the balance sheet, and changes in the fair value relating to a financial period can either reduce or increase net income and net income per Partnership unit for that period. When derivative financial instruments are settled, cash payments or receipts will be recorded as an addition to or reduction of the specified income statement item that is being managed.

Per Partnership unit information

Basic net income per Partnership unit is calculated on the basis of the weighted-average number of Partnership units outstanding during the year. Diluted net income per Partnership unit is calculated based on the quarterly average of the number of Partnership units that would have been obtained upon exercise of options to purchase Partnership units at the quarterly average market close price plus the number of Partnership units issuable on conversion of outstanding convertible debentures. In addition, in calculating diluted net income per Partnership unit, net income is increased by the interest on the convertible debentures and accretion of the convertible debenture discount.

Convertible debentures

Convertible debentures are recorded at the amount of proceeds received less the amount attributed to the conversion feature, which is included as part of unitholders' equity. The difference between the recorded amount and the face value of the convertible debentures is charged to income on an effective yield basis.

Deferred costs

All costs directly associated with arranging financing are capitalized as deferred financing costs and amortized over the life of the related debt.

3. Management reorganization and minority interest conversion

On June 29, 2005, the Partnership acquired certain interests and assets from TMCI that related to the Partnership's businesses for consideration of $12.0 million, comprised of $7.1 million cash and Partnership units valued at $4.9 million. In addition, TMCI converted its holding of TGLLP Expansion Units into 97,789 Partnership Units valued at $0.9 million. The management reorganization and Expansion Unit conversion transactions are summarized as follows:

Consideration:

Units issued on management reorganization (529,851 Units)	$	4,970
Units issued on conversion of Expansion Units (97,789 Units)		917
Cash paid on management reorganization, including transaction costs of $447,000		7,523
	$	13,410

Allocation:

Capital assets	$	5,271
Management reorganization costs, including transaction costs of $447,000		8,139
	$	13,410

In accordance with the terms of the agreements there were no management fees and limited partner distributions after January 1, 2005. The above transactions increased unitholders' equity by $5.9 million, eliminated minority interest in the Partnership of $0.4 million, reduced net income by $8.1 million and increased capital assets by $5.0 million.

Prior to June 29, 2005, TMCI operated the Partnership's businesses under the Administration Agreement. Under this agreement, TMCI incurred administration costs, including the costs of certain employees, and charged an overhead recovery fee to the Partnership equal to the revenues collected by the Partnership for overhead charged to the owners of the Partnership's NGL extraction and natural gas processing facilities. The overhead recovery fees fund the administration costs of TMCI. To the extent the overhead recovery fees exceed the administration costs of TMCI, the excess is paid by TMCI to the Partnership and recorded as a reduction of the Partnership's administration costs. As a result of the reorganization, subsequent to June 29, 2005, the administration costs of TMCI associated with the Partnership's operations are incurred by the General Partner. In addition, subsequent to June 29, 2005, the Partnership no longer incurs overhead recovery fee expenses. For the period ended June 29, 2005, overhead recovery fees paid to TMCI of $1.0 million (2004 – $2.4 million) exceeded the administration costs of TMCI by $0.2 million (2004 – $0.2 million).

Pursuant to the June 29, 2005 reorganization, TMCI did not charge any management fees for the year ended December 31, 2005 (2004 – TMCI charged management fees of $0.7 million).

During 2004, TGLLP had other limited partners, including TMCI but excluding the Partnership (the "Expansion Unitholders"). On March 18, 2004, the Expansion Unitholders elected to exchange their Expansion Units for units of the Partnership, effective January 1, 2004, pursuant to an annual right. As a result of the exchange, the Partnership issued 2,433,839 Units to the Expansion Unitholders in exchange for their ownership in TGLLP and related return-on-capital-derived revenue pursuant to the NGL Purchase Agreement. In addition, the Partnership also received entitlement to that portion of the distributions attributable to 26.75 percent of Younger Extraction Plant production in excess of 8,000 barrels per day of Propane-Plus, which was estimated to be the plant capacity as at the time of the acquisition of the Younger Extraction Plant. The 2004 exchange increased unitholders' equity by $16.5 million, decreased minority interest in the Partnership by $9.2 million and increased capital assets by $7.3 million.

During 2004, TMCI continued to be an Expansion Unitholder and had the option to contribute 26.75 percent of any future capital expenditures incurred by TGLLP in return for Expansion Units of TGLLP. TMCI contributed capital of $359,000 and received distributions of $22,000 for the twelve months ended December 31, 2004.

4. Capital assets

	2005	2004
Property, plant and equipment	$ 348,446	$ 172,701
Pipelines	85,123	25,088
Accumulated depreciation	(36,507)	(24,644)
	397,062	173,145
Intangible assets	24,761	1,000
Accumulated amortization	(2,737)	(461)
	22,024	539
JFP construction in progress costs	–	41,625
	$ 419,086	$ 215,309

Interest and financing fees of $1.2 million were capitalized during the year (2004 – $0.7 million).

On March 22, 2005, the Partnership acquired the Harmattan Complex through the purchase of all the outstanding shares of two private companies, for $185.0 million, prior to working capital and other adjustments and the repayment of a $4.0 million debenture held by one of the private companies. The Harmattan Complex includes a gas processing facility and associated gas gathering systems, a deep cut NGL extraction facility, and NGL fractionation and terminalling facilities. Results from the operations of the Harmattan Complex have been included in the financial statements beginning March 22, 2005.

The Harmattan Complex net assets were acquired for cash consideration of $176.7 million, including transaction costs of approximately $0.7 million. The Harmattan Complex acquisition is summarized as follows:

Capital assets	$	166,729
Intangible assets		23,761
Current assets		8,886
Long-term debt		(11,419)
Current liabilities		(4,365)
Debenture		(4,000)
Asset retirement obligations		(2,044)
Pension obligation		(805)
	$	176,743

Immediately following the March 22, 2005 closing, the $4.0 million debenture was redeemed in cash by the Partnership. The former owners of the Harmattan Complex are required to reimburse the Partnership for certain obligations, if any, of the two private companies acquired if claimed by the Partnership prior to March 22, 2006, should these obligations arise prior to December 2008.

On August 19, 2004, the Partnership acquired EDS for $25.0 million and made an initial payment of $20.0 million to fund the construction of JFP. JFP began operations on March 15, 2005. To December 31, 2005, the Partnership has incurred $60.0 million in JFP construction costs, including the initial payment.

5. Long-term debt

		2005		2004
New Revolving Facility	$	91,000	$	–
Revolving credit facility		–		25,938
Reducing term facility		–		1,962
	$	91,000	$	27,900

On March 22, 2005, the Partnership's credit facilities were refinanced into a $120 million revolving facility (the "New Revolving Facility") with an extendible 364-day revolving period. The New Revolving Facility bears interest at bankers' acceptance rates plus stamping fees plus applicable margins. The margins and stamping fees vary depending on financial statement ratios and can range from 1.15 percent to 1.65 percent.

The New Revolving Facility is subject to renewal on March 21, 2006 at which time it can be extended at the lenders' option for 364 days. If the New Revolving Facility is not extended, the amount drawn is fully repayable on March 20, 2007.

On March 22, 2005, the Partnership also refinanced its existing operating facility into a new $10.0 million operating facility that bears interest at bankers' acceptance rates plus stamping fees plus applicable margins that vary depending on financial statement ratios, and can range from 1.15 percent to 1.65 percent. As at December 31, 2005, the amount available under this facility was reduced by $1.3 million to support outstanding letters of credit.

The New Revolving Facility and the new operating facility are secured by a first ranking floating charge debenture on all of the Partnership's assets.

The average annual effective interest rate on the Partnership's debt for 2005, including the Partnership's convertible debentures, was 5.1% (2004 – 4.5%).

6. Convertible debentures

On March 22, 2005, the Partnership issued $50 million of 5.85 percent convertible debentures maturing on September 10, 2010, with interest payable semi-annually in arrears on September 10 and March 10 in each year. The proceeds of the issue, net of underwriters' fees and costs, were $47.9 million. Prior to maturity the debentures may be converted into Partnership units, at the option of the holder, at a conversion price of $10.35 per Partnership unit. Underwriters' fees and costs of $2.1 million are being amortized over the life of the convertible debentures.

The Partnership may redeem the convertible debentures after September 10, 2008 and prior to September 10, 2009, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest, if any, provided the current market price of the Partnership units on the date notice is given is not less than 125 percent of the conversion price, subject to adjustment in certain events. Subsequent to September 10, 2009 and prior to the convertible debentures' maturity, the Partnership may redeem the convertible debentures at a price equal to their principal amount plus accrued and unpaid interest, if any. The Partnership can elect to pay interest on the debentures by issuing Partnership units.

Balance, December 31, 2004	$	–
March 22, 2005 issue		50,000
Conversion discount		(2,325)
Accretion of discount to December 31, 2005		325
Conversions to December 31, 2005		(30)
Balance, December 31, 2005	$	47,970

At December 31, 2005, the convertible debentures had an estimated fair value of $51.2 million.

7. Asset retirement obligations

The Partnership has estimated the net present value of its total asset retirement obligations to be $3.6 million as at December 31, 2005, based on a total future liability of $100.8 million, excluding salvage values, an increase of $64.2 million from December 31, 2004. The earliest of these payments is not expected before 2029, with the majority not expected to begin until 2043. The Partnership's credit adjusted risk free rate of 9 percent and an inflation rate of 1.5 percent were used to calculate the present value of the asset retirement obligation. The following table reconciles the Partnership's total asset retirement obligation:

		2005		2004
Asset retirement obligations, beginning of period	$	1,340	$	1,111
Additions due to acquisitions during the period		2,044		125
Accretion expense		257		104
Asset retirement obligations, end of period	$	3,641	$	1,340

8. Unitholders' equity

The Partnership is authorized to issue an unlimited number of Partnership units.

	2005	2004
Unitholders' capital	$ 314,344	$ 194,364
Accumulated earnings	55,825	46,556
Convertible debentures	2,325	–
Contributed surplus	132	–
Accumulated distributions	(88,013)	(59,857)
	$ 284,613	$ 181,063

	Number of units	Amount
Balance, December 31, 2003	18,005,763	$ 112,088
Net income for the year		12,047
Unitholders' distributions declared		(11,855)
Units issued on exercise of options	398,350	1,852
Units issued on minority interest exchange (note 3)	2,433,839	16,429
Units issued on offering of August 19, 2004	8,025,000	52,965
Issue expenses		(2,463)
Balance, December 31, 2004	28,862,952	$ 181,063
Net income for the year ended December 31, 2005		9,269
Unitholders' distributions declared		(28,156)
Units issued on exercise of options	41,750	208
Units issued on offering of March 22, 2005	13,000,000	120,250
Issue expenses		(6,395)
Units issued on management reorganization and minority interest conversion (note 3)	627,640	5,887
Units issued on conversion of convertible debentures	2,898	30
Convertible debentures		2,325
Contributed surplus		132
Balance, December 31, 2005	42,535,240	$ 284,613

On March 22, 2005, the Partnership closed an equity offering of 13,000,000 Partnership units at a price of $9.25 per unit, for gross proceeds of $120.3 million or net proceeds of $113.9 million after offering expenses and underwriters' commission of $6.4 million.

On August 19, 2004, the Partnership closed an equity offering of 8,025,000 Units at a price of $6.60 per Unit, for gross proceeds of $53.0 million or net proceeds of $50.5 million after offering expenses and underwriters' commission of $2.5 million.

9. Partnership unit option plan

The Partnership may provide additional compensation to the General Partner's employees, officers and directors by issuing Partnership unit options under the Partnership Unit Option Plan (the "Unit Option Plan"). The Unit Option Plan provides for the issuance of options to acquire Partnership units. As at December 31, 2005, the Unit Option Plan was limited to issuing 3,283,650 Partnership units, of which 1,989,900 Partnership units remain available. The outstanding options expire at various dates ending November 24, 2010.

The following tables summarize information about the Unit Option Plan as at December 31, 2005 and 2004:

	2005		2004	
	Options	Average Exercise Price	Options	Average Exercise Price
Outstanding, beginning of year	181,500	$ 6.01	523,750	$ 4.78
Granted	304,500	8.47	56,500	7.81
Exercised	(41,750)	4.96	(398,350)	4.65
Expired	(25,000)	5.31	(400)	3.75
Outstanding, end of year	419,250	$ 7.94	181,500	$ 6.01
Exercisable, end of year	130,125	$ 7.05	100,750	$ 5.00

Exercise Price	Number Outstanding	Number Exercisable	Weighted Average Remaining Life (years)
$ 4.34	3,000	3,000	1.9
4.85	20,000	20,000	2.4
5.98	40,500	40,500	2.9
7.81	53,250	26,625	3.9
8.05	175,000	–	4.9
8.43	20,000	20,000	4.0
9.10	87,500	–	4.4
9.40	20,000	20,000	4.5
$ 4.34 to $ 9.40	419,250	130,125	4.3

The various employees and directors of the General Partner, excluding officers, were issued 304,500 options on various dates during the year ended December 31, 2005 at strike prices ranging from $8.05 to $9.40 per option. For each option issued, the strike price is equal to the market closing price of the Partnership units the day prior to being issued. At the date of granting, the options issued in 2005 had a combined estimated fair value of $0.3 million, which will be recognized in income over the two-year vesting period. The estimated weighted-average fair value of these options was $0.87 per option based on the Black-Scholes option pricing methodology, using an expected risk-free interest rate that ranged from 4.25 to 4.75 percent, a dividend yield of 8 percent, a five-year maturity and a volatility factor of 26.0 percent.

During the year ended December 31, 2004, various employees of the Younger Extraction Plant, Joffre Extraction Plant and the RET Complex were issued 56,500 options at a strike price of $7.81 per option, which was equal to the market closing price of the Partnership units on the day prior to being issued. At the date of granting, these options had an estimated fair value of $46,556, which will be recognized in income over the two-year vesting period. The estimated fair value of these options was $0.82 per option based on the Black-Scholes option pricing methodology, using an expected risk-free interest rate of 4.25 percent, a dividend yield of 8.3 percent, a five-year maturity and a volatility factor of 26.5 percent.

Compensation expense for the year ending December 31, 2005 related to the granting of these options was $0.1 million (2004 not significant).

10. Long-term Incentive Plan

The Partnership provides additional compensation to the General Partner's officers and employees by issuing Restricted Share Units ("RSUs") under the Long-term Incentive Plan (the "LTIP").

The LTIP is governed by a plan document that defines how awards will be determined and administered. Under the LTIP, RSUs are granted to individuals yearly effective January 1 of the year following the just-completed fiscal year and vest over a three-year period; one third of the RSU award vesting per year. Upon vesting, the holder of RSUs receives cash equal to the ten-day volume-weighted average market price of a Partnership unit times the number of RSUs that have vested. From the effective date of the RSU award, the holder of RSUs receives additional RSUs equal to the cash distributions that would be paid on the number of Partnership units that the RSU award represents.

The 2005 annual pool of RSUs eligible to be awarded is based on a calculation that considers growth in distributions per unit factor and total unitholder return benchmarked against the total unitholder return of a basket of peers and certain related indices over one, two and three years. Total unitholder return is the sum of distributions and the increase in the market price of units over the specific periods.

Subsequent to December 31, 2005, 123,397 RSUs were issued with a fair value of $1.2 million based on the December 31, 2005 closing Partnership unit price of $10.05.

11. Income per Partnership unit

The following table summarizes the computation of net income per Partnership unit:

	2005	2004
Numerator:		
Numerator for basic income per unit	$ 9,269	$ 12,047
Convertible debentures interest	2,265	–
Accretion of convertible debentures discount	325	–
Numerator for diluted income per unit	$ 11,859	$ 12,047
Denominator:		
Weighted-average number of units	39,358,432	22,971,358
Convertible debentures	3,755,585	–
Dilutive unit options	50,055	118,511
Denominator for diluted income per unit	43,164,072	23,089,869
Basic income per unit	$ 0.24	$ 0.52
Diluted income per unit	$ 0.24	$ 0.52

For the year ended December 31, 2005, the effect of the convertible debentures is anti-dilutive (2004 – not applicable).

12. Pension Plans

The Partnership has a pension plan covering its unionized employees at the Younger Extraction Plant (the "Younger Plan"). The Younger Plan provides employee pensions based on length of service and the highest consecutive three years' average earnings.

Effective March 22, 2005, the Partnership assumed a defined benefit pension plan covering certain employees at the Harmattan Complex (the "Harmattan Plan"). The Harmattan Plan provides an employee pension to existing members based on length of service and highest consecutive three years' average earnings.

The Younger Plan and the Harmattan Plan (collectively called the "Plans") rely on actuarial reports, prepared by an independent actuary, for funding and accounting purposes. The cost of pension benefits earned is determined using the projected benefit method pro-rated on employment service and management's best estimate of expected plan investment performance, salary escalation and retirement date. Plan assets are valued at fair market value. The excess of the net actuarial gain (or loss) over 10 percent of the greater of the accrued benefit obligation and the market value of plan assets at the beginning of the period is amortized over the expected average remaining service period of the active employee ("EARSL"). Past service costs are also amortized over EARSL.

The following significant actuarial assumptions were used to determine pension cost:

As at December 31, 2005	Younger Plan	Harmattan Plan
Discount rate	5.25%	5.25%
Expected long-term rate of return	6.00%	6.00%
Rate of compensation increase	2.75%	2.75%

The funding actuarial valuations of the Younger Plan and Harmattan Plan were performed as at December 31, 2005. The next funding actuarial valuations for the Plans will be performed no later than as at December 31, 2007.

The determination of the pension cost for the Company's defined benefit pension plans is as follows:

Pension Cost Incurred

For the year ended December 31, 2005	Younger Plan	Harmattan Plan
Current service cost	$ 126	$ 150
Interest cost on accrued benefit obligation	104	253
Less actual return on plan assets	(169)	(427)
Actuarial losses *	133	768
Pension cost incurred during year, before adjustments	$ 194	$ 744

* Actuarial loss relates to change in discount rate assumptions to 5.25 percent from 6.0 percent.

Pension Cost Recognized

For the year ended December 31, 2005	Younger Plan	Harmattan Plan
Pension cost incurred	$ 194	$ 744
Adjustments to reflect long-term nature of pension plan		
Difference between expected and actual return on plan assets	66	214
Difference between actuarial (gain) loss recognized for year and actual actuarial (gain) loss on accrued benefit obligation	(133)	(768)
Amortization of transitional (asset) obligation	1	(1)
Pension cost recognized during year	$ 128	$ 189

Components of Pension Cost

For the year ended December 31, 2005	Younger Plan	Harmattan Plan
Current service cost	$ 126	$ 150
Interest cost on accrued benefit obligation	104	253
Expected return on plan assets	(103)	(213)
Amortization of transitional (asset) obligation	1	(1)
Pension cost recognized during year	$ 128	$ 189

Reconciliation of Accrued Benefit Obligation

As at December 31, 2005	Younger Plan	Harmattan Plan
Accrued benefit obligation, beginning of year	$ 1,669	$ 4,155
Current service cost (including employee contributions)	202	150
Interest on accrued benefit obligation	104	253
Actuarial loss (gain) during year *	133	768
Benefits paid during year	(71)	(27)
Accrued benefit obligation, end of year	$ 2,037	$ 5,299

* Actuarial loss relates to change in discount rate assumptions to 5.25 percent from 6.0 percent.

Reconciliation of Fair Value of Plan Assets

As at December 31, 2005	Younger Plan	Harmattan Plan
Estimated fair value of plan assets, beginning of year	$ 1,641	$ 3,362
Company contributions during year	134	395
Member contributions during year	76	–
Benefit payments during year	(71)	(27)
Actual return on plan assets	169	427
Fair value of plan assets, end of year	$ 1,949	$ 4,157

The Younger Plan assets are held by Sun Life. The Harmattan Plan assets are held by Royal Trust. The assets are valued as at December 31, 2005 as reported by Sun Life and Royal Trust respectively.

The assets are invested under a balanced fund mandate with a broad mix of fixed income, Canadian equity and foreign equity investments. The investment mixes for each of the Plans are as follows:

As at December 31, 2005	Younger Plan	Harmattan Plan
Cash and short-term equivalents	6.0%	1.1%
Canadian equities	32.9%	41.4%
Foreign equities	26.0%	22.8%
Fixed income	35.1%	34.7%
Total	100.0%	100.0%

Determination of accrued benefit asset (liability) as at December 31, 2005:

As at December 31, 2005	Younger Plan	Harmattan Plan
Accrued benefit asset (liability), beginning of year	$ –	$ –
Adjustment for Harmattan Complex acquisition	–	(805)
Plus contributions during year	134	395
Less pension cost for the year	(128)	(189
Accrued benefit asset (liability), end of year	$ 6	$ (599)

Funded status as at December 31, 2005 and reconciliation of accrued benefit asset (liability):

As at December 31, 2005	Younger Plan	Harmattan Plan
Accrued benefit obligation, end of year	$ (2,037)	$ (5,299)
Fair value of plan assets, end of year	1,949	4,157
Funded status	$ (88)	$ (1,142)
Unamortized transitional obligation (asset)	27	(12)
Unamortized net actuarial loss	67	555
Accrued benefit asset (liability), end of year	$ 6	$ (599)

13. Related party transactions

On March 18, 2004, the Manager and Robert J. Pritchard, an officer of the General Partner, as Expansion Unitholders, elected to exchange Expansion Units for units of the Partnership receiving 481,397 Units and 86,427 Units respectively as described in Note 3.

14. Commitments

The Partnership is committed to various lease payments for land, office space, vehicles and office equipment. Under the terms of the leases, the following future payments are required:

2006	$	422
2007	$	372
2008	$	331
2009	$	289
2010	$	287

As at December 31, 2005, the future minimum lease payments for land use associated with the Joffre Extraction Plant was $15,000 for each of the years 2006 through 2033, which are included in the above amounts.

15. Financial instruments

Interest rates

At December 31, 2005, the Partnership had an interest rate swap in place on a principal amount of $20 million, whereby the Partnership receives a floating rate and pays a fixed rate of 4.41%, which started February 1, 2005 and matures February 1, 2010. The fair value of the interest rate swap at December 31, 2005, based on the then current market price, was an unrealized liability of $0.3 million (2004 – $0.4 million). The change in fair value during 2005 was recognized as a mark to market financial instrument gain of $0.1 million (2004 – $0.4 million loss). The Partnership and the provider of the interest rate swap have early settlement options, in whole or in part, of the principal amount, which are currently in effect and exist until the maturity date. If either party exercises this option, the derivative financial instrument will be settled at the then current market price.

Electricity rates

On October 11, 2005, the Partnership entered into electricity rate swaps for 3.5 MW, whereby the Partnership receives a floating rate and pays a fixed rate. For the three-year period starting January 1, 2006, the Partnership will pay an average fixed rate of $57.00 per MWh. The fair value of the electricity rate swaps at December 31, 2005, based on the then current market price, was recognized in income as unrealized mark to market gain of $1.2 million (2004 – not applicable) with an offsetting asset on the balance sheet. The Partnership and the provider of the electricity rate swaps have early settlement options, in whole or in part, of the principal amount, which are currently in effect and exist until the maturity date. If either party exercises this option, the derivative financial instrument will be settled at the then current market price.

Credit risk

A significant portion of revenue from the Younger Extraction Plant is received from Provident under the NGL Purchase Agreement and other joint venture agreements. In addition, a significant portion of the Partnership's revenue originates from commercial arrangements with NOVA Chemicals. The Partnership's commercial exposure to NOVA Chemicals is through the Ethane Supply Agreement, the EDS and JFP transportation agreements and the Partnership's share of Harmattan Complex ethane sold to NOVA Chemicals. In the event that Provident or NOVA Chemicals are unable to fulfill the obligations under these various agreements, the Partnership's net income may be significantly negatively affected.

The EDS and JFP transportation agreements both have initial terms of 12 years. NOVA Chemicals cannot selectively cancel only one of the agreements after the initial term.

At December 31, 2005, the accounts receivable from Provident and NOVA Chemicals amounted to approximately 23 percent (2004 – 24 percent) of the accounts receivable, excluding shrinkage gas. For the year ended December 31, 2005, 21 percent (2004 – 31 percent) of the Partnership's NGL sales and fee income less shrinkage gas, operating costs and overhead recovery fees was earned from EnCana and Provident under the NGL Purchase Agreement and 33 percent (2004 – 21 percent) was earned from NOVA Chemicals under the Ethane Supply Agreement, the EDS and JFP Transportation Agreements, and the sale of Harmattan Complex ethane production.

The RET Complex and Harmattan Complex have credit exposure to a number of customers in the oil and gas industry under its operating and processing arrangements. These amounts are subject to normal industry credit risks.

Fair value of financial instruments

The carrying amounts of the Partnership's cash and cash equivalents, accounts receivable, prepaid expenses and interest, accounts payable and accrued liabilities, and Unitholders' distributions payable approximate their fair values due to the near term nature of these financial instruments. The carrying value of long-term debt approximates fair value as it bears interest at floating rates.

16. Guarantees

The Partnership has entered into an agreement indemnifying a certain party with respect to potential third party claims, such as environmental and tax, associated with the acquisition of the RET Complex in 2003. Due to the nature of the indemnifications, the maximum exposure under the agreement cannot be estimated. As at December 31, 2005, management has not been notified of any claims.

Upon the acquisition of the Harmattan Complex, the Partnership assumed performance guarantees with respect to the operation of the facility under the terms of the Representation, Management and Processing Agreements (the "Rep Agreements"). Currently, approximately 55 percent of the natural gas volume processed at the Harmattan Complex is subject to the terms of the Rep Agreements. If the guaranteed processing requirements cannot be met, the Partnership will be subject to penalties that could have an adverse effect on the Partnership's results. No penalties have been incurred by the Partnership since it acquired the Harmattan Complex.

17. Insurance claims and contingencies

On October 25, 2004, the owners of the Younger Extraction Plant, along with certain other parties, settled insurance claims that arose from the 1999 plant outage. In exchange for the assignment of lawsuits for losses incurred as a result of the outage, the Partnership received $2.4 million, net of expenses, of which $0.5 million was in respect of capital assets and recorded as a reduction of capital assets and $1.9 million was in respect of business interruption coverage, and accordingly has been included in revenue for the year ended December 31, 2004.

With this settlement, the Partnership has resolved all claims and litigation actions with respect to the 1999 outage, with the exception of one remaining claim. Management believes that this $5.8 million claim against several parties, including the Partnership, will not be successful. In the event that the claim is successful, the Partnership will submit an insurance claim for the amount paid, if any.

On February 1, 2006, the Partnership received a proposal letter from the Canada Revenue Agency (CRA) outlining a proposed reassessment related to Goods and Services Tax (GST) for the period January 2002 to September 2005. The proposed reassessment relates to claims for Input Tax Credits made by the Partnership for GST paid in the course of obtaining goods and services for the operation of its businesses. The CRA asserts that the Partnership does not carry on commercial activities, as defined in the Excise Tax Act, and is therefore not allowed to claim Input Tax Credits. The disallowed Input Tax Credits plus related interest and penalties in the proposed reassessment, total approximately $1.2 million. The Partnership is obtaining legal advice and has provided the CRA with written submissions supporting the Partnership's position that the Input Tax Credits have been properly claimed in accordance with the law. Accordingly, the Partnership has not recorded the proposed reassessment, interest or penalties in its financial statements.

18. Supplementary cash flow information

The change in non-cash working capital from operations was comprised of:

	2005	2004
Accounts receivable	$ 1,936	$ (1,699)
Accounts payable and accrued liabilities	793	524
Prepaid expenses	(1,116)	(266)
Payable to Manager	(457)	353
	$ 1,156	$ (1,088)

The change in non-cash working capital from investments was comprised of:

	2005	2004
Accounts payable and accrued liabilities	$ (9,043)	$ 9,007

Cash interest paid for the year ended December 31, 2005 was $5.6 million (2004 – $1.1 million).

Corporate Information

Shareholder Information

Stock Exchange Listing

Toronto Stock Exchange
Limited Partnership Units: TAY.UN
Convertible Debentures: TAY.DB

Transfer Agent and Trustee

Computershare Trust Company of Canada

Legal Counsel

Macleod Dixon LLP, Calgary, Alberta

Auditors

KPMG LLP, Calgary, Alberta

Bankers

Canadian Imperial Bank of Canada
Royal Bank of Canada
National Bank of Canada
Alberta Treasury Branches

Investor Relations

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